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Hon C. P. McTaggart

ROYAL COMMISSION

ON

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HEARINGS

HELD AT

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ERRATA

Volume 109

<u>Page</u>	<u>Line</u>	
18084	12	"Ten per cent and one cent modified" should read "Increase of one cent and Two cents as modified".
18089	9	"because traffic has" should read "because traffic mix has".
18090	22	"revenue in tons" should read "revenue and tons".
18104	17	"that we" should read "but we".
18113	4	"reduce, it would" should read "reduce them, it would".
18114	11-15	"its own line. The same railway ... local mileage amount" should read "its own line, made on a lower combination of mileages if available using the shorter distance from the common point to some intermediate junction, using the shorter mileage of another railway plus the local mileage beyond.
18116	6	"short haul" should read "short hauled".
18116	26	"base of 760.8" should read "based on 760.8"
18120	28	"I do not believe a" should read "I do not believe in a".
18121	6	"Haul through and this will be a penalty" should read "hauled free and others will pay a penalty."
18122	13	"for 100 pounds" should read "per 100 pounds".
18134	19	"they just have: should read "they would just have".
18137	26	"In the moving" should read "In the movement".
18138	7	"to" should read "but".
18138	26	"Estevan, their thermo" should read "Estevan to their thermal".
18138	29	"thermo" should read "thermal".
18145	2	"Yes, the" should read "yes. In the".



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ERRATA (continued)

Volume 109

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2			
3	<u>Page</u>	<u>Line</u>	
4	18145	28	"routes" should read "Rules".
5	18146	8	"with" should read "in".
6		19	"route" should read "Rules:."
7	18165	28	"you have traffic" should read "you have terminal".
8	18169	15	"\$1.35" should read "\$1.34".
9		20	"from 100" should read "for 100".
10	18170	3	"for the" should read "and the".
11		28	"rate increase" should read "right increase".
12	18176	13	"already presently" should read "uniformly".
13	18180	13	"return" should read "reduction".
14	18182	12	Delete the word "not".



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TORONTO, ONTARIO

ROYAL COMMISSION ON TRANSPORTATION

Proceedings of hearings held
in the Court Room, Board of
Transport Commissioners
Offices, Ottawa, Ontario, on
the 27th day of October, 1960.

COMMISSION

Mr. M. A. MacPherson	Chairman
Mr. H. Anscomb	Member
Mr. A. H. Balch	Member
Mr. R. Gobeil	Member
Mr. H. A. Mann	Member
Mr. A. Platt	Member

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Mr. G. S. Cumming

Mr. H. W. Ellicott Adviser

Mr. F. W. Anderson Secretary

Major N. Lafrance Assistant Secretary



Ottawa, Ontario,
Thursday,
October 27, 1960.

--- On commencing at 10:00 a.m.

THE CHAIRMAN: Order, please.

RE-EXAMINATION BY MR. SINCLAIR: (resumed)

Q. Mr. Chairman, at the closing yesterday I had put the following question to Mr. Roberts, and I am reading from page 18066 of volume 108.

"Q. Mr. Commissioner Mann asked you why you thought there might be a necessity for unjust discrimination and undue preference legislation in view of the pervasiveness of competition, and your answer to him was that when you were looking at these kind of matters of regulation you were considering the psychological effects, even though they were not necessary. Would there or would there not be any necessity, in your view, for legislation regarding undue preference or unjust discrimination in relation to the substitutionality of products and alternative sources of supply in contra-distinction to carrier competition or market competition?"

And the witness's answer was that he did not quite follow that question.

Well, I now turn to page 18057 of the transcript.



1
2 Of course, I was working from a note that I had, but I
3 will put the actual question and answer to the witness:

4 "COMMISSIONER MANN: Q. If competition is
5 pervasive throughout the entire country to
6 roughly the same intensity, why do we need to
7 worry about undue discrimination and undue
8 preference? Does it not follow, then, that there
9 can be no worry about this on the part of the
10 shipper because he has always got an alternate
11 means of transportation available? Why should
12 he concern himself with whether or not he is
13 unjustly discriminated against by the railways?

14 A. Or a substitute product -- there are
15 other factors: a substitute product or a
16 substitute source of supply which he has
17 available.

18 Q. Oh yes, the full range of that."

19 And then the witness went off in the following
20 answers to deal with the question of the psychological
21 factors that I had put to him and the question that was
22 given to him by me at the conclusion of yesterday's
23 hearings.

24 Now, Mr. Roberts, in light of your answer to
25 the question of Commissioner Mann as to the necessity for
26 undue preference and unjust discrimination legislation and
27 his statement concerning alternative means of
28 transportation being available throughout the system,
29 what did you mean when you answered:

30 "A substitute product or a substitute source of



1
2 supply"?

3 Were you drawing a distinction between that and
4 carrier competition, and if so, why?

5 A. Well, sir, in the case of the substitute
6 product, there could be two producers shipping into the
7 one market, both equidistance from that market; one
8 being, for example, say, shingles -- natural shingles,
9 wooden shingles and the other a manufactured type of
10 shingles.

11 It is possible, sir, that a lower basis of rates
12 could be given to one of the shippers into the particular
13 market, even though the loading characteristics and other
14 features are essentially the same, to the detriment of the
15 shipper, say, of the wooden shingles.

16 Q. Well, Mr. Roberts, under legislation and in
17 view of the prohibition against personal discrimination
18 that is now part of our law, in a situation where there
19 is a common market -- and, to make it easy, we will take
20 the equidistant producers shipping substitutional products.
21 If they feel there is unjust discrimination or undue
22 preference, can they make a complaint?

23 A. Yes, sir, they go to the Board of Transport
24 Commissioners.

25 Q. And what is the result? Do the Board
26 look at rate levels or classifications, or what do they
27 do?

28 A. The Board relate the rates which are applied
29 on each of the products to the rates normally applied for
30 similar movements, and evaluate as to whether there is



1
2 any question of undue discrimination.

3 Q. And tell me, for the benefit of the
4 Commission, if you would, please, what about substitute
5 sources of supply?

6 A. Well, a similar situation, sir, could
7 develop where the same amount of material shipped from
8 different sources of supply into a common market, where
9 preference might be shown to one shipping point into
10 that market over the other through the medium of a
11 lower rate.

12 Q. Could I ask you if this summarizes your
13 position on that? For the purpose of illustration, let
14 us use sand and gravel moving into a common market from
15 two alternative sources of supply, both moving at the
16 same rate as would be required to prevent personal
17 discrimination or undue preference under our existing
18 law. If the rate from one source of supply was made
19 half the rate of the other, in your view that would,
20 under existing law, be unlawful?

21 A. That is correct, sir.

22 Q. And if the railway composed a rate to
23 another shipper that was half the distance from the
24 market of the other alternative source of supply, would
25 there be, under existing law, any recourse or any
26 ability for the man who was setting up a new plant half
27 the distance if he got a different rate, distance
28 considered?

29 A. Yes, sir, he would have recourse to the
30 Board of Transport Commissioners who would evaluate his



1
2 rate in relation to the other rates from other sources
3 of supply.

4 COMMISSIONER MANN: Mr. Sinclair, are you
5 leaving that point now?

6 I just wondered whether I could ask your help
7 in understanding the law as you have pointed it out now.
8 Does that mean that in the situation that the witness
9 has described the Board or the law recognizes domestic
10 market competition?

11 MR. SINCLAIR: Of course not, sir. It is
12 very clear that it does not, because this is where
13 people, if I may so, Commissioner Mann, who do not
14 fully look at the facts and matters that are germane
15 or relevant sometimes fall into error in saying that
16 this shows that internal market competition is
17 operative. And, if I may say so, this is often found
18 in the writings by economists who seem to see in this
19 situation a recognition of internal market competition,
20 and in symposiums or discussion periods this is what
21 generally arises, when you get economic thought applied
22 to these problems. The reason I say it does not, is
23 this, that basic to the situation of substitutionality
24 of products put by the witness, under the law a
25 difference in the value affects classification; and, in
26 this way, if a person felt that he was being
27 discriminated against by virtue of wrong classification
28 in relation to value as a factor in classification, he
29 would have recourse to have a re-classification that
30 would not allow the railways to use that to bring about



1
2 internal market competition. And this is an
3 outstanding example of that very thing that the
4 witness has given, and I think it points up rather
5 well in the relationship of manufactured shingles to
6 cedar shingles.

7 COMMISSIONER MANN: Thank you very much. I
8 suppose, bearing in mind my background, I have fallen
9 into error.

10 MR. SINCLAIR: No, sir, I would not say that.
11 I do not know how many classification problems you have,
12 but I do recall to you, sir, the one that you I am sure
13 know about and have overlooked, and that was the
14 famous white beans classification, the problem that
15 was a very, very active one and turned on the relative
16 values of beans and other products. And another one
17 that I am sure you know -- maybe I will recall it to
18 you, as I think you were part of this, as a matter of
19 fact -- having to do with a certain canned product, a
20 meat product, and the relationship of certain ingredients
21 in the can which were alleged not to have been given
22 proper reflection in the classification.

23 THE CHAIRMAN: You are not talking about
24 canned buffalo?

25 MR. SINCLAIR: No.

26 Well, it is a product name. I do not know --
27 all right, I suppose I does not matter. Pard was what
28 was, I think, the difficulty.

29 THE CHAIRMAN: It might be anything.

30 MR. SINCLAIR: Well, sir, they are very good



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2 customers of Canadian Pacific, so you will pardon me
3 for not answering that. I think this is really what
4 we have in mind, sir.

5 COMMISSIONER MANN: Thank you very much,
6 sir.

7 MR. SINCLAIR: Q. Well, Mr. Commissioner
8 Mann -- and this is my last point, Mr. Roberts --
9 raised with you the question of the situation in Great
10 Britain. Have you made any intensive study of that,
11 Mr. Roberts?

12 A. No, sir, I have not.

13 Q. I think you said in answer to
14 Commissioner Mann; he brought to your attention a
15 section of the Act (I think it was section 22), and
16 your answer to him was, well there it was and maybe
17 you could interpret it that way?

18 A. That, in essence, sir, is right.

19 Q. Do you know anything of the British
20 system at all?

21 A. Well, I have discussed it with British
22 transport officers, sir, yes. I visited Great Britain
23 a year ago last January for the purpose of discussing
24 with them their methods of making rates.

25 Q. And what was the purpose of your visit
26 over there?

27 A. The purpose of the visit was to discuss
28 with them new charges scheme and the fact that they
29 may provide for rates without publication, and how the
30 system was operating, sir.



1
2 Q. Yes. And did you -- were you
3 accompanied by anybody in this trip that you made?

4 A. I was accompanied by a member of the
5 Research Department, and also two Canadian National
6 Railways officers.

7 Q. Yes. And as a result of your enquiries
8 and discussions into their pricing scheme, did you
9 implement or recommend implementation of the adoption
10 of their pricing system into the Canadian freight rate
11 scheme?

12 A. No, sir.

13 MR. SINCLAIR: Thank you very much. That is
14 all.

15 THE CHAIRMAN: Well, we have had three days of
16 pummelling of the freight rate structure, and there
17 has been absolutely unrestricted cross-examination.
18 Now, we have been very fortunate in having had the
19 experience of a very responsible, very responsive
20 witness. You have not all agreed. That leaves some
21 work for us. But, in any event, Mr. Roberts, we thank
22 you for your help. Thank you very much.

23 THE WITNESS: Thank you very much, sir, for
24 those words.

25 MR. SINCLAIR: The next witness on behalf
26 of the Canadian Pacific Railway is Mr. Edsforth. The
27 purpose of his evidence is to take up some of the
28 points raised by my friends from the provinces, and
29 in particular in view of the nature of the evidence,
30 Mr. Edsforth will likely have more to say about the



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2 Manitoba submission than others, because as the
3 Commission well realise Manitoba's submission in the
4 area of traffic has dealt with many items that I do
5 not think have been dealt with by other people before
6 the Commission.

7 THE CHAIRMAN: Now, Mr. Sinclair, there is
8 no precis for Mr. Edsforth's evidence, and that being
9 so and since it is directed to the submission of only
10 some provinces, well, we do not want to restrict cross-
11 examination, but I think here only those provinces
12 should cross-examine who are being attacked.

13 And the procedure will be that Mr. Edsforth
14 will give evidence and then stand down?

15 MR. SINCLAIR: Quite so.

16 THE CHAIRMAN: And Mr. Emerson will then
17 be called?

18 MR. SINCLAIR: That is right.

19 THE CHAIRMAN: And everybody will have a
20 crack at him.

21 I think, though, that I should warn counsel
22 that after 108 days we pretty well know what your
23 views are, so please restrict examination as much as
24 you honestly can, and do not indulge in anything that
25 is elementary.

26 MR. MAURO: I was going to say we have not
27 seen this material. Mr. Sinclair said he was going
28 to let me have a few figures. I will try and confine
29 my examination, Mr. Chairman, with Mr. Edsforth to
30 matters of evidence because, otherwise, I can deal with



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2 them in argument.

3 THE CHAIRMAN: We are supposed to proceed
4 with despatch and we are trying to.

5 MR. SINCLAIR: Thank you, Mr. Chairman.

6 Mr. Edsforth, please.

7
8 C.D. EDSFORTH, called

9 DIRECT EXAMINATION BY MR. SINCLAIR:

10 Q. Mr. Edsforth, you appeared before this
11 Commission earlier this year?

12 A. Yes, I did.

13 Q. I think the Commission will recall that
14 Mr. Edsforth appeared in December last for some days.
15 His qualifications and background setting out his
16 experience and the work he has done --

17 THE CHAIRMAN: He is well known.
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2 Q. For the purpose of the record it is found
3 in volume 11 at pages 1440 to 1441. Now, the first
4 point I wish to cover with you, Mr. Edsforth, is
5 the Manitoba formula for general rate increases. This
6 is the split formula as put before the Commission by
7 Manitoba in the way that it was presented here by Mr.
8 Stechishin. Now, have you reviewed the evidence
9 of Mr. Stechishin respecting the proposed formula put
10 forward by Manitoba as to a method of applying general
11 freight rate increases? Mr. Stechishin's evidence in
12 this regard is to be found in Volume 91 at page 15611.
13 I am going to make these references because I think it
14 will be of assistance to anybody looking at the
15 transcript.

16 A. Yes, I have reviewed that evidence.

17 Q. What is your general comment in regard
18 to it?

19 A. Well, my general comment is, first of
20 all, that the formula as I understand it is that
21 Manitoba proposes that any general freight increases
22 should be calculated partly by a percentage increase in
23 the freight rates and partly by an increase per 100
24 pounds, a flat increase per 100 pounds. Now, the
25 formula and the illustration used by Manitoba envisaged
26 an increase of 10 per cent plus $3\frac{1}{2}$ cents per 100 pounds
27 to be applied to the freight rates.

28 Q. In lieu of?

29 A. In lieu of a straight horizontal per-
30 centage increase of 20 per cent.



1
2 Q. And this was illustrative?

3 A. Only illustrative, yes.

4 Q. Now, in your opinion would the method
5 proposed by Manitoba protect the revenues of the com-
6 pany? In other words, do you consider that an in-
7 crease of 10 per cent and $3\frac{1}{2}$ cents with the modification
8 introduced by Mr. Stechishin, because that is an inte-
9 gral part of it, would yield the same increased revenues
10 as a horizontal percentage increase of 20 per cent?

11 A. No, I do not consider that it would. I
12 have reviewed the modification and also the calculations
13 made by Mr. Stechishin and there are one or two points
14 which I would like to bring out. In the first
15 place, of course, the calculations were based on the
16 revenue and traffic of all Canadian railways which he
17 developed from the Board's Waybill Study of 1958.
18 I think you questioned him about that during cross-
19 examination on page 16310 of Volume 96 of the
20 transcript. Now, of course, in a general freight
21 rate increase the percentage of increase is based on
22 the revenue and the traffic volume of Canadian
23 Pacific, that is the yardstick line. Therefore,
24 even in the illustration Mr. Stechishin used he
25 should have or should properly use Canadian Pacific
26 revenues and traffic volume.

27 Q. Yes. Now, Mr. Stechishin, I think
28 said that the reason he did not, and I am recollecting
29 his cross-examination, is that the tons were not
30 readily available to him, the Canadian Pacific tons?



1
2 A. That is right, yes. I am not criticising
3 this, I am simply pointing it out.

4 Q. I quite understand that and I am sure
5 the Commission does but unfortunately someone else may
6 read this. Now, if Mr. Stechishin's calculations had
7 been based on Canadian Pacific revenues and tons under
8 the Board's Waybill Study for 1958 would it have changed
9 the result?

10 A. Yes, it would have changed the result
11 assuming again for the purpose of illustration that the
12 20 per cent increase was what was required, then using
13 Canadian Pacific revenue and tonnage from the Board's
14 Waybill Analysis of 1958 for Canadian Pacific alone,
15 a 10 per cent increase plus an increase of $4\frac{1}{2}$ cents per
16 100 pounds would have been required to get the same
17 mathematical revenue yield as a straight 20 per cent
18 increase. That, of course, is before any allowance
19 for attrition or erosion.

20 Q. This calculation you have made you have
21 committed it to a statement and I would ask to file that
22 as Exhibit 163.

23 ---EXHIBIT NO. 163: Summary for Canadian Pacific --
24 1958 Waybill Analysis showing
25 revenue reported for each rate
26 classification.

27 Q. Looking at Exhibit 163, Mr. Edsforth,
28 you have just said that to meet mathematically the same
29 level for Canadian Pacific would require not a 10 per
30 cent and $3\frac{1}{2}$ cents but 10 per cent and $4\frac{1}{2}$ cents and



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2 the method of how you arrived at that is set out in
3 this exhibit?

4 A. Yes, that is right.

5 Q. Well, Mr. Edsforth, 10 per cent plus $3\frac{1}{2}$
6 cents and 10 per cent plus $4\frac{1}{2}$ cents, that is not too
7 meaningful, is it?

8 A. Well, it is one cent per 100 pounds
9 difference and that is quite meaningful in the lower
10 rates. If you have a rate of 5 cents per 100 pounds
11 an additional increase of one cent is a 20 per cent in-
12 crease. Just to take that illustration a little
13 further: say the rate is 5 cents per 100 pounds, the
14 20 per cent horizontal increase on that rate would
15 produce an increase of one cent. The Manitoba formula
16 would produce an increase of one-half cent from the
17 10 per cent factor and a further $3\frac{1}{2}$ cents from the
18 flat amount or an increase overall of 4 cents per 100
19 pounds or 80 per cent. Using the Canadian Pacific
20 revenue and tons the increase would be one-half cent
21 on the percentage factor and $4\frac{1}{2}$ cents on the weight
22 factor or an increase of 5 cents and that is double the
23 rate or a 100 per cent increase. It does make a
24 difference.

25 Q. Mr. Edsforth, if Mr. Stechishin's
26 calculations had been based on Canadian Pacific revenue
27 in accordance with the yardstick application principle
28 that we have followed in general revenues, would it
29 have changed a number of his calculations in the tables
30 and exhibits that he filed?



1
2 A. Yes, it of course would because the
3 mathematics would be out. I have not tried to recalculate
4 all of them but I did make a re-statement in part of one
5 of the exhibits filed by Manitoba and that was Exhibit
6 153E which I think was Diagram 112B in their statement.

7 Q. Yes. Now that came into the record at
8 page 15623 of Volume 91, and with the permission of
9 the Commission I would file as Exhibit 164 this re-
10 statement in part of the Manitoba exhibit 153E.

11 ---EXHIBIT NO. 164: Re-statement in part of
12 Manitoba Exhibit No. 153E.

13 Q. Now, looking at Exhibit 164 it introduces
14 in it a column "With modification". I think I should
15 ask you, Mr. Edsforth, before we go further on this
16 exhibit to deal with this modification and explain a
17 little bit about that if you do not mind?

18 A. Yes. Well, the modification proposed by
19 Manitoba was to alleviate to some extent the effect of
20 the 10 per cent plus $3\frac{1}{2}$ cent increase on the low rated
21 traffic, the low value traffic. Their suggestion, their
22 modification was for these lower rates the increase be
23 40 per cent or 10 per cent plus $3\frac{1}{2}$ cents whichever
24 produced the lower. The table on Exhibit 164 under the
25 heading "At 10 per cent plus 3.5 cents" is calculated on
26 that basis. Now, the re-statement is really in the
27 last two columns of the statement under the heading
28 "At 10 per cent plus 4.5 cents", which as I have already
29 explained is what the increase would have to be in this
30



1
2 illustration based on Canadian Pacific revenue and
3 tons. In doing this I used the same modification as
4 Manitoba suggested, that is an increase of 40 per cent
5 to alternate with the 10 per cent plus $4\frac{1}{2}$ cents whichever
6 made the lower. Now, going down this statement if we
7 look at the rate of 5 cents in the column headed
8 "Rate prior to increase", I think it illustrates what
9 I said just a little while ago about the difference
10 that would result from applying various formulas.

11 Q. Yes, you take it across at 20 per cent.

12 A. Ten per cent and one cent modified but
13 without the modification it is 4 cents and with
14 Canadian Pacific it is still two cents modified to
15 5 cents without modification.

16 Q. Now, Mr. Stechnishin says he assumed
17 for the purpose of his calculations the same attrition
18 and erosion that would involve Canadian Pacific's
19 submission to this Commission in respect to the yield
20 in the case before the Board that resulted in the
21 judgment of December, the rate increase of 17 per
22 cent effective December 1, 1958?

23 A. Yes, that is right.

24 Q. What is your comment on that, the erosion
25 attrition factor?

26 A. Well, I do not think it is proper to
27 assume the same erosion and attrition under the
28 Manitoba formula as was used in calculating the
29 erosion and attrition from the increase proposed by
30 the railways in 1958. I say this for the reason that



1
2 the Manitoba formula increases the rates on the lower
3 value shorter haul traffic very substantially in excess
4 of what the increases would be on a straight horizontal
5 percentage increase even without modification.

6 Q. This can be seen from Exhibit 164?

7 A. Exactly, and so the attrition in the rates
8 and the erosion in that low rated and shorter haul traffic
9 would be substantial.

10 Q. Now, just before we go much further on
11 that subject as to attrition and erosion in the short haul
12 I want to read to you part of the transcript starting
13 at page 16312 of Volume 96. Mr. Stechishin said in
14 answer to a question by myself:

15 "Mr. Stechishin: The studies I have made
16 indicate that the existence of competition
17 is no heavier on the short haul traffic than
18 it is on the long haul traffic.

19 "Q. I have asked if the question I put to
20 you was right; notwithstanding the fact that
21 you had put a heavier increase on the low rated
22 short haul traffic and had relieved long haul
23 and notwithstanding the fact that you had re-
24 lieved light loaded, high rated traffic and
25 still did not make any provision for the attri-
26 tion and erosion factor?

27 "Mr. Stechishin: Substantially, yes. My
28 decision was based on a study which indicated
29 that the short haul traffic was no more
30 susceptible to competition than the long haul



1
2 traffic.

3 "Q. If Mr. Edsforth or Mr. Roberts said
4 that their experience in handling com-
5 petitive factors in Canada, not just in
6 Winnipeg, was to the contrary, what would you
7 say then?

8 "Mr. Stechishin: I would say they are
9 mistaken, because I am using the Waybill
10 Analysis and that shows that is true.

11 "Q. You are saying, notwithstanding the
12 fact that this is the business they are in
13 and responsible for, you know more about it
14 than they do?

15 "Mr. Stechishin: I am not saying that.
16 I am saying that the facts show that.

17 "Q. You are saying the Waybill Analysis
18 can be used to show competition. Is that
19 your statement?

20 "Mr. Stechishin: I think so, yes."

21 Now, in the light of that I would ask you what is your
22 experience as to competition in the various lengths of
23 haul?

24 A. Well, we certainly have found from our
25 own experience that in the short range of movement
26 shorter hauls, competition is certainly much more
27 intense than in the long hauls. I am not saying there
28 is no competition on long haul traffic, there certainly
29 is, but we consider it and find it much more intense
30 in the short haul range and for a variety of reasons.



1
2 First of all, there is the service factor in the short
3 run and, furthermore, there is a greater intensity of
4 truck movement in the shorter haul. As far as we
5 can find out it is much more intensive.

6 Q. Yes. Now, in that respect, that is
7 your experience?

8 A. Yes.

9 Q. Now, are you speaking from your exper-
10 ience as a railway traffic officer or are you speaking
11 from your experience as a traffic man who not only
12 has had some railway experience but other types of
13 transportation?

14 A. Yes, I have some experience in both?

15 Q. In both what?

16 A. In both railway transportation and other
17 types of transportation, motor trucks specifically.

18 Q. And water?

19 A. And water, very much so.
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2 THE CHAIRMAN: And in the short haul area
3 you found it very difficult?

4 THE WITNESS: That is where we first felt
5 it, and it has always continued at great intensity,
6 and we particularly found it so here in eastern
7 Canada. The Montreal-Toronto area is perhaps one of
8 the most competitive I know of.

9 MR. SINCLAIR: Q. Do you know the area
10 between Lethbridge and Calgary and Edmonton?

11 A. That is very competitive too.

12 Q. Do you know the area out of Winnipeg
13 to southern Manitoba and western Manitoba?

14 A. Yes, we run into a lot of competition
15 there too.

16 Q. Do you know the area between Regina,
17 Moose Jaw and Swift Current, and Regina, Saskatoon and
18 Prince Albert?

19 A. Those are all subject to very, very
20 intensive competition from motor carriers.

21 Q. And do you know the area between the
22 Okanagan and Vancouver or Vancouver Island?

23 A. Yes, indeed I do.

24 Q. Through Kamloops?

25 A. Some very trying experiences there.

26 Q. Now, what do you think of a study based
27 on the Board's waybill analysis to show that your
28 experience is not giving you the correct answers --
29 let me put it that way?

30 A. I do not really see how a study of the



1
2 waybill analysis can give you that result because the
3 waybill analysis, after all, only shows what you
4 handled. It does not show what you did not get, and that
5 is where you see the incidence of truck competition.

6 Q. Can you, by looking at rate changes in
7 the area by mileage blocks, say up to 200 -- 200 to
8 400, 400 to 800, 800 to 1,000 -- can you do it that way?

9 A. No, not necessarily, because traffic has
10 some effect there -- a very large effect. You would have
11 to examine individual rates and individual volumes of
12 movement to really give you the story. As I say, that
13 only gives you part of the story: it only shows what
14 you handled, and that is certainly only half of it.

15 Q. Mr. Stechishin said that he put in the
16 modification but he did not make any adjustment for any
17 attrition factor even in his 10 and $3\frac{1}{2}$ for the
18 modification, and this is at page 16311. He said that
19 he did not make any change in that because the
20 modification was subsequent to the calculation, and he
21 said to me, "I do not think it would affect the traffic
22 that much, Mr. Sinclair. To be frank with you, in fact,
23 I am quite convinced it would not." Dealing with this
24 modification, do you think it would have, or do you not,
25 any effect on traffic and revenue return, Mr. Edsforth,
26 different from the plan without modification?

27 A. Well, yes, it would in this way, of
28 course: immediately the modification is introduced it
29 naturally reduces the revenue yield from the increase
30 because the modification applies where it is lower than



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2 the straight formula, and so to that extent the
3 revenue contribution is less. I have not been able to
4 make a precise calculation on it, but from some rough
5 figures I have taken out it appears to me that the
6 revenue difference would be quite substantial.

7 Q. Well, this is not a very accurate --
8 I know you say you have only taken a rough shot at it?

9 A. Yes, I have.

10 Q. "It would be quite substantial" -- but
11 what would it do to the percentage figure if it was on
12 a horizontal percentage method.

13 A. It would, so near as I can determine,
14 mean an additional two or three or maybe as much as
15 four percentage points more.

16 Q. Would there be an offsetting effect of
17 long haul traffic and revenues in the situation of this
18 plan advanced by Manitoba that would, in your view,
19 protect the revenue situation?

20 A. No, I do not believe so. It is true
21 that the formula proposed by Manitoba, and even as
22 amended to reflect Canadian Pacific revenue in tons,
23 would result in lower increases or lesser increases
24 for the higher rates, and that would take in, of course,
25 long haul traffic, but those reductions, substantial
26 as they are, I do not believe would have a significant
27 effect on the attrition or the erosion on the longer
28 haul traffic. I say this because for one thing the
29 traffic moving in the longer hauls is generally of
30 higher value -- it must be or it would not stand the



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2 transportation costs involved in the longer hauls and,
3 therefore, are better able to stand a freight rate
4 increase, and therefore I would not expect that the
5 attrition on traffic would be very greatly different
6 under a horizontal percentage increase or the formula
7 of Manitoba.

8 It may be suggested that with a lesser
9 increase the incidence of motor truck competition may
10 not be as great. I do not know; I do not think that
11 necessarily follows at all, because generally the
12 motor carriers keep their rates within a range of the
13 railway rates no matter what the level may be.

14 Q. Are you talking about long haul high
15 rated traffic?

16 A. Yes, I am.

17 Q. Let me ask you whether you have met
18 long haul competition, and if you had this in mind in
19 your answer. Do you meet competition between central
20 Canada and the Maritimes?

21 A. Oh, yes.

22 Q. Do you meet competition between central
23 Canada and the west?

24 A. Yes, indeed we do, very much so.

25 Q. Do you meet competition between Winnipeg
26 and Alberta?

27 A. Yes.

28 Q. And Saskatchewan?

29 A. Yes.

30 Q. And vice versa?



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A. Oh, yes.

Q. And between Alberta and other parts of the Prairies and the Pacific Coast?

A. We meet competition wherever we find it, Mr. Sinclair.

Q. And do you find it in these places?

A. Yes, we do.

Q. Do you find that you have any competitive problems between Edmonton and Vancouver at the present time, for instance?

A. Yes, we surely do.

Q. Now, I wish to read to you from page 16273, but before I do, Mr. Edsforth, as a traffic man how would you describe this competition inter-regionally and long haul regionally that we have just spoken about? Sporadic?

A. Oh no, it is not sporadic. It is steady; it is a continuing thing.

Q. Do you as a traffic man find it easy to contain, or otherwise?

A. It is difficult to contain at all times.

Q. Would you describe it as light or intense?

A. Well, of course, those are relative terms, but it is generally of a fair intensity at all times.

Q. Now, Mr. Edsforth, I read to you from page 16273 and 16274 of volume 95. I was asking Mr. Stechishin a number of questions, and my friend Mr.



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2 Mauro, just before that, asked me to deal with this,
3 and I will just read it:

4 "Mr. Sinclair: Q. What you are interested
5 in, you say, is preserving the net revenue
6 position of the carriers.

7 Mr. Stechishin: That is correct, sir.

8 Q. And are you suggesting that by
9 following your method the carriers will
10 secure more short haul traffic than they are
11 now securing?

12 Mr. Stechishin: I suggest they will secure
13 more long haul traffic.

14 Q. Are you suggesting they would secure more
15 short haul traffic, and for that I am going
16 to accept your definition of short haul being
17 anything under 200 miles.

18 Mr. Stechishin: I don't think it will have
19 an effect one way or the other, on less than
20 200 miles.

21 Q. You think they will not gain or lose?

22 Mr. Stechishin: That is correct."

23 Mr. Edsforth, in preface to those questions
24 and in relation to them, I suggested that sugar beets
25 be looked at and, unfortunately, I did not have a
26 rate, so I have asked you to take a look at sugar beets
27 and I, of course, have in mind the sugar beet movement
28 in southern Manitoba to the Manitoba sugar beet plant
29 on the outskirts of Winnipeg. Have you made an
30 analysis of that?



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2 A. Yes, I have. I have taken their sugar
3 beet rates published from various points in Manitoba
4 to the Manitoba sugar company's siding just outside
5 Winnipeg.

6 Q. Yes.

7 A. I have not checked out all of the
8 shipping points, but I have taken two or three
9 representative ones.

10 Q. Well, give us two; that is enough.

11 A. Well, the first one I have taken is
12 Altona, Manitoba; the present rate there to the
13 Manitoba sugar company's siding is \$1.58 a ton. With
14 a straight increase of 20% that rate would go up to
15 \$1.90 a ton, an increase of 32¢. With an increase of
16 10% plus $4\frac{1}{2}$ ¢ for 100 pounds, the \$1.58 rate would
17 become \$2.64 a ton, or an increase of \$1.06 a ton.
18 But, under Manitoba's proposal the modification would
19 apply, so a 40% increase would be taken in place of it.
20 If you increase the rate of \$1.58 by 40% it becomes
21 \$2.11, or an increase of 53¢ a ton. Another example is
22 from Winkler, Manitoba, which I noticed was mentioned
23 a few times.

24 Q. Well, not in relation to this, but I
25 will come to Winkler on another point.

26 A. Well, they ship sugar beets from there.

27 Q. Yes, but I think that Mr. Stechishin
28 was dealing with joint through rates when he spoke
29 of Winkler.

30 A. All right, take Morris, Manitoba.



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Q. All right, just leave Winkler.

A. It is relatively the same thing.

Q. Mr. Stechishin mentions Plum Coulee.

Well, we will certainly deal with Plum Coulee with the next witness. Sugar beets come from there also.

A. Yes, we have rates from Plum Coulee.

Q. Now, your example of Morris?

A. Morris is substantially the same as Altona. The rate is \$1.48 a ton. A 20% increase would make it \$1.78, or an increase of 30¢ a ton. 10% plus 4½¢ would bring the rate to \$2.53, or an increase of \$1.05 a ton. But the modification, the 40% increase would make the rate \$2.07, which is an increase of 59¢ a ton.

Q. Now, Mr. Edsforth do you think that these rate changes in this type of commodity for these distances would have, or would not have, an effect on the revenue and traffic movements?

A. Well, an increase on the sugar beets of the order I have mentioned, even with the modification, would certainly, in my opinion, have a substantial effect on the movement, because that is increasing the rates very heavily -- 40% is a fair sized increase, and I would expect that the shippers not only would resent it -- no shipper likes a rate increase, but I think they would have a little more resentment on one as high as this in lieu of one of 20%. In other words, the increase is doubled. But it is not just a matter altogether of how the shipper may



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2 feel about it. It is how it affects his business, and
3 I would think the sugar beet people may find quite a
4 difficulty in keeping a profitable operation going at
5 those rates.

6 Q. And the result, in your opinion, if
7 this was applied -- what would happen?

8 A. Well, either ~~they~~ would look around for
9 some other form of transportation, if they could get
10 it at a cheaper rate or the movement would diminish,
11 or the railways, in order to keep the traffic going,
12 would have to reduce the rate substantially.

13 THE CHAIRMAN: Who has the business now?

14 THE WITNESS: We handle all, sir -- ~~or,~~ the
15 railways do -- at least, substantially all of it. It
16 has a very heavy rail movement, Mr. Chairman.

17 MR. SINCLAIR: Q. You have given sugar beets
18 as an example because I have asked you to do so, and
19 it was the one I put to the witness. Would you deal
20 with other commodities that move in substantial volume
21 in the short haul field?

22 A. Well, of course, there are things like
23 ---

24 Q. And the effect of the Manitoba proposal
25 on the traffic and revenues of the railways in these
26 commodities?

27 A. There are the various types of building
28 material -- sand and gravel and crushed stone, crude
29 gypsum, and to some extent ore and concentrates and
30 things of that nature. I have not tested out the



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2 effects of all of those.

3 Q. But, generally speaking?

4 A. Generally speaking, I would say the
5 results would be very much the same, and that is why
6 I say that the Manitoba proposal would mean a greater
7 erosion and attrition. It is not just the fact that
8 competition is intense in the shorter hauls. It
9 certainly is; but, that is only one thing. You have to
10 look at the effect of rates on the movement of traffic
11 and whether traffic will be dried up. That is a most
12 important consideration, not only from the standpoint
13 of the railways' revenue, but from the standpoint of
14 the shippers' interest too.

15 Q. Then, Mr. Edsforth, would you give your
16 overall assessment of the Manitoba proposal -- that is,
17 the split proposal with the modification?

18 A. Well, my overall assessment is this:
19 to the extent that it increases the rates for the
20 shorter hauls or the lower value traffic more than the
21 straight horizontal percentage increase, the revenue
22 result would be substantially less than from a
23 horizontal percentage increase, and I cannot see that
24 there would be any real offsetting benefit from the
25 lower increases on the longer haul and higher value
26 traffic.

27 So, in the overall position, I think the
28 railways' revenue position would be seriously affected,
29 and not only that: the shippers, particularly those
30 of the low valued commodities, would experience great



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2 difficulties too.

3 Q. Mr. Edsforth, you recollect that
4 Manitoba's proposal was tied into a split terminal
5 versus line haul costs, and this was also a part of
6 the submissions made on behalf of the province of
7 Alberta, and so in regard to that part of it I will
8 deal with them all at once.

9 THE CHAIRMAN: Well, we will take a short
10 break now.

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12 --- A short recess ---
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THE CHAIRMAN: Order, please.

MR. SINCLAIR: Now, if the Commission wishes, I can deal with other traffic aspects of Manitoba, or if the Commission would rather ---

THE CHAIRMAN: Do it in your own way.

MR. SINCLAIR: It does not make any difference to me. I can deal with the question of the split between line haul and terminal costs, or I can deal with Manitoba through.

THE CHAIRMAN: I think you could finish Manitoba, first and then deal with Mr. Mauro?

MR. FRAWLEY: If the witness is going to discuss Dr. Little's evidence ---

MR. SINCLAIR: No, the suggestion I made -- that I do Manitoba's through. I will come to that later on.

MR. FRAWLEY: You will come to that today?

MR. SINCLAIR: I certainly hope to.

MR. FRAWLEY: Somebody said the witness would stand down. I would just like to know what the Commission has in mind as to when I would cross-examine Mr. Edsforth on his attack which I am sure he will have on Dr. Little's evidence.

THE CHAIRMAN: After Mr. Emerson is finished.

MR. FRAWLEY: I think I should say right now that I will not endeavour to cross-examine on Dr. Little's evidence without consulting with Dr. Little.

THE CHAIRMAN: Well, we will cross that bridge when we come to it.



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MR. SINCLAIR: Q. Mr. Edsforth, I now wish to turn to the question of inter-line rates as was dealt with in this proceeding by Mr. Stechishin on behalf of the province of Manitoba. In volume 91, page 15627 and following, Manitoba discusses inter-line rates.

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A. Yes.

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Q. Have you read that evidence?

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A. Yes, I have read that evidence.

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Q. Yes. If you would look at volume 92, page 15664 ---

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A. Yes, I have that here.

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Q. I think that is the basis, possibly, of Manitoba's submission on one of the aspects here. Would you just summarize that, please?

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A. Yes. Well, Manitoba recommends with respect to inter-line rates that where freight rates are based on mileage they should be based between all stations in Canada on the shortest through rail mileage, regardless of whether or not it is necessary in the course of the movement to transfer the goods from one railway to another.

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Q. Yes.

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A. Now, reviewing that, I would take it that this covers class rates, commodity rates or any rates that are constructed on the basis of mileage, whether it be mileage scales or specific point to point rates.

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Q. That are related back into the mileage?



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A. Yes, into the mileage, yes.

I do not understand that Manitoba suggests that a full line of rates be published between all stations specifically point to point on such a basis. I would certainly hope not, because such a publication would be a tremendous thing to accomplish. It would entail -- well, I would say, years of checking before you could ever get the tariff together, and the number of additional tariffs that would result from it would just be staggering. That is the only way I can describe it. And really I do not think the traffic that would use those rates would be any way commensurate with the publication that is involved.

Q. What you mean? The publication cost of it?

A. The publication cost of it, the amount of tariff material that you would have, and a general difficulty of having so many tariffs to look at.

Q. Yes. Well, go on, then.

A. Now, also, I must take strong exception to the suggestion that the rates be constructed by using the shortest through-rail mileage, regardless of whether the traffic moves via that junction or not. In other words, what we term in the railways trick mileages. That is, the rates would be constructed by some theoretical route which would not be used, or would not necessarily be used. That immediately introduces, in my opinion, constructive mileages into the freight rate structure. And those were disallowed



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2 by the Board of Transport Commissioners under
3 equalization following the findings of the first
4 Turgeon Royal Commission. In other words, they said
5 constructive mileages must not be employed in
6 constructing the equalized class rates.

7 Q. Mr. Edsforth, is there constructive
8 mileages in groups?

9 A. Only to this extent, that some stations
10 pay for less than their mileage; others pay more.

11 If group rates are properly constructed,
12 they are based on some key point in the group
13 reflecting as nearly as may be determined proper
14 average for all points in the group. So, there really
15 is not a constructive mileage in the sense that all of
16 the traffic is moving at rates for less than the actual
17 mileage. Some moves at greater; some moves at less.

18 Q. On the average of the group, it evens
19 out?

20 A. It evens out, or should if your group
21 key point is properly calculated.

22 Q. And, for instance, you say if it is
23 properly calculated. There is a group, for instance,
24 in the Maritimes -- is that group properly constructed?
25 I am thinking of the St. John group.

26 A. Well, It is not really based on the
27 mileage at all. It is an arbitrary. It is based on
28 arbitraries over Montreal. They are not really
29 related to distance, specifically.

30 Now, another objection, and a very serious



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2 one, from the standpoint of the railways, is from
3 their own revenue position.

4 Q. Yes?

5 A. Because if rates were to be constructed
6 by using some theoretical routes which could not and
7 would not be used, and they had to haul the traffic
8 via much longer distances, then obviously their
9 revenue is going to be directly affected, and
10 particularly if this principle is applied all over
11 Canada, because Manitoba's recommendation, as I see
12 it, would not only affect traffic moving from a point
13 on one railway to another; it would also involve
14 traffic moving between any two points on one railway.

15 Q. I just want to clarify that a bit, if
16 I may. Are you saying to this Commission that
17 Manitoba's proposal in this area of inter-line rates
18 would affect not only inter-company or inter-carrier
19 line transfers ---

20 A. Right.

21 Q. --- and calculations, but also intra-
22 movements -- and, I think, Mr. Edsforth, if I may,
23 that in dealing with this latter one, Manitoba dealt
24 with that, I think, as a part of their long and short
25 haul provisions to this Commission?

26 A. Oh, yes.

27 Q. But you think it is really akin to
28 an inter-line situation or the same principle being
29 applied; do you?

30 A. Well, it certainly would follow from



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2 their recommendation, anyhow.

3 Q. Now, there was a specific instance that
4 I do not think -- by the way, maybe before I do this
5 -- As a traffic officer on inter-line, in the sense
6 of inter-railway company movements, are these matters
7 dealt with under the existing law?

8 A. Oh, yes, there is provision in the
9 Railway Act for the making of inter-line rates.
10 Section 341 and 342 cover that.

11 Q. Yes. And have you been involved in
12 any proceedings in regard to those sections from time
13 to time?

14 A. Yes. I do not think there has been
15 too many before the Board. Normally, we are able to
16 work these things out with the shippers. We have some,
17 that we put in lots and lots of inter-line rates
18 without having recourse to the Board.

19 MR. FRAWLEY: 341.4, Mr. Sinclair, has
20 something to do with inter-line rates, and it was
21 before the Board the other day -- in the Western
22 Chemical.

23 MR. SINCLAIR: Yes, I remember that.

24 Q. Well, Mr. Edsforth, you are not saying
25 that you are always able to deal with shippers?

26 A. Not always, no. I would never say
27 that. But I say we put many, many inter-line rates
28 into effect without having recourse to the Board. That
29 is all I am saying. Yes, I am familiar -- not familiar,
30 but I know of the case to which Mr. Frawley refers, and



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2 I think that is not so much a case of inter-line rates
3 but perhaps the level of them that was involved.

4 Q. Now, I asked Mr. Stechishin to give a
5 specific example to the Commission of a situation in
6 Manitoba where inter-line rates were a problem, and
7 he referred me, at volume 96, page 16316 to the one
8 he had in mind. And I will read this questioning:

9 "Q. Have any points mentioned in your brief
10 as suffering a disability through circuitry
11 made an application to the railways or to the
12 Board?

13 Mr. Stechishin: Yes, Winkler has.

14 Q. When did it make it?

15 Mr. Stechishin: To the railways.

16 Q. When?

17 Mr. Stechishin: On several occasions. I
18 don't know the date.

19 Q. What was the answer?

20 Mr. Stechishin: No.

21 Q. Do you know the reasons?

22 Mr. Stechishin: No. I wasn't present.

23 Q. Who told you they made the application?

24 Mr. Stechishin: People in Winkler.

25 Q. Do you mind saying whether it was a
26 shipper?

27 Mr. Stechishin: It was a shipper."

28 Now, Winkler is a local point on the
29 Canadian Pacific; is it not?

30 A. Yes, that is right.



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Q. Have you made any enquiries into this situation?

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A. Yes, I have asked our Winnipeg office to look into this and see if they could inform me as to the particular case Mr. Stechishin had in mind. They have gone back over their records for about six years, back to 1954. They have only one case in which an inter-line movement was involved.

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Q. From Winkler?

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A. From Winkler to a local point on the Canadian National.

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Q. Yes?

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A. That involved a movement of two carloads of canned goods which actually originated at Morden, Manitoba, another local point on the Canadian Pacific Railway, and was stopped off at Winkler for the completion of load in transit, and then went on to its destination, Dauphin, Manitoba, on the Canadian National.

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Now, that particular movement was taken care of by a special rate notice. In other words, the two cars started out at Morden and they moved to Winkler; stopped there; completed their load, and went on to Dauphin at the joint inter-line through rate in effect from Morden, plus stop-off charge.

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Q. Is that the only instance you found in the company's files?

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A. That is the only one they were able to locate.



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2 Q. The effect of what you have said, what
3 would it be? Would that be that, in effect, an inter-
4 line basis was given to Winkler?

5 A. In effect, that was what happened.

6 Q. That there was involved, as I take it,
7 a stop-off in transit?

8 A. Yes, that is right.

9 Q. Mr. Edsforth, if there was a regular
10 movement between Winkler and points on the Canadian
11 National -- a movement of any significance, even if it
12 was not regular -- would you, Canadian Pacific, or
13 would you not be prepared to publish inter-line rates?

14 A. Oh, yes, certainly, we would. As a
15 matter of fact, a particular commodity I talked about,
16 canned goods, we have through rates on canned goods
17 from Morden, another canning point to destination on
18 the Canadian National. And, certainly, if Winkler
19 wanted rates, we would give them to them. There is
20 no reason why we should not.

21 In fact, Mr. Sinclair, we have many, many
22 inter-line rates in western Canada, and we are
23 prepared to put them in wherever they are needed, as
24 long as there is a movement of traffic, but we do say
25 that you should not have a whole lot of inter-line
26 rates, thousands of them, unless you have got traffic
27 to move.

28 Q. And if there is a spot movement ---?

29 A. If there is a spot movement, we will
30 take care of it.



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Q. How?

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A. Either by a special rate notice, or by putting in a special rate in the tariff. If it is to continue, we will keep the rate in. If it is only one car to move, or two cars to move, and that is the end of it, well, we would not keep the rate in indefinitely. There is no need of it.

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Q. Now, at volume 92, page 15651, Mr. Stechishin, on behalf of Manitoba, dealing with this question of inter-line rates -- I am going to summarize him -- said that a different situation exists in eastern Canada than in western Canada. He said that the railways attempted in 1955, when the class rate equalization order was issued, to remove many of the joint through rates in eastern Canada the railways had inherited from early days, and he said, further, that shipper reaction was instrumental in persuading the railways to retain the joint class rates, but revised to the new equalized basis. Have you any comment on that evidence?

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A. Well, yes, I have read that, and the circumstances were not that way.

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Actually, my record indicates this, that when the Board issued their order 80410 of December 12, 1952, which was their preliminary order in the equalization case, in which they prescribed a scale of class rates, they required the railways to publish through class rates on the new scale jointly between two or more railways, to the extent that the then



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2 existing single line basis of rates applied jointly
3 over two or more railways.

4 Now, the equalized rates did not go into
5 effect in 1952. There were a lot of hearings all
6 across the country, and many scales submitted to the
7 Board, but finally the Board's scale was approved and
8 the equalized rate came into effect on March 1, 1955.

9 Q. How were they published?

10 A. They were published in the individual
11 railway's class tariffs, except between eastern and
12 western Canada, where a Canadian freight association
13 tariff applies. But, in publishing their class tariffs,
14 the railways complied with the Board's directive in
15 order 80410 and put in inter-line class rates in
16 eastern Canada to the extent that they had formerly
17 been in effect.

18 Well now, eventually those inter-line class
19 rates were taken out of the railways' tariffs and
20 put into a Canadian freight association issue. That
21 was done in 1957, but it was not shipper pressure. It
22 was the Board's order.

23 Q. Are you saying to this Commission that
24 the inter-line rates that existed before continued
25 through, but at a later date they were lifted out of
26 the individual tariffs and put in another tariff?

27 A. In another Canadian freight association
28 tariff.

29 Q. C.F.A. tariff?

30 A. Yes, that is right.



1

2

Q. And did this confuse people?

3

A. Well, it may have done. I do not know.

4

Q. Page 15649, volume 92. This is a

5

matter of junction points, Mr. Edsforth, to which

6

Manitoba made reference: junction points between

7

two separate railways. Mr. Stechishin drew attention

8

to what he considered a disadvantage, in his view,

9

to shippers, stemming from the fact that in western

10

Canada there were 138 common junction points -- that

11

is, points in which two railways were there. That

12

is what a junction point meant to him.

13

A. Common points, you might say.

14

Q. There were 138 common points -- common

15

junction points, I think he called them. But inter-

16

change, he said, was recognized at only 42 of these

17

common points. Now, have you any comments to make

18

on this situation, and also with respect to the

19

position of Manitoba, as expressed by Mr. Stechishin,

20

that there was a disadvantage to western Canada in

21

this situation?

22

A. Well, the 138 common points are points

23

served by both railways, but they do not necessarily

24

have junctions between the two of these points --

25

in other words, track facilities connecting them.

26

As a matter of fact, there are many of them that

27

have not.

28

Q. Mr. Stechishin recognized this in

29

his evidence.

30

A. Yes, he did, and he said, well, that



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was the situation; he certainly would not advocate
that the railways should be forced to put in inter-
change tracks at every one of these points because
that would entail a heavy expense.



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2 But his recommendation was that they should be treated
3 in what I term constructive interchange. In other
4 words, they should be considered as though interchange
5 did exist and the rate should be constructed that way
6 so they would get the benefit of the shorter mileage.
7 Now that, again, is in my opinion introducing construc-
8 tive mileages into the freight rate structure. I cannot
9 see it in any other guise at all.

10 Q. Mr. Edsforth, would this or would it not
11 involve movements operating over one route, the rates
12 being based on a route other than that which the
13 traffic moved?

14 A. That is exactly what could or would
15 happen in many cases wherever you use what I call the
16 constructive junction. Obviously the traffic would
17 not move that way, it would not be physically possible,
18 it would have to be moved some other way and presumably
19 a longer haul.

20 Q. And if that were to be operated in
21 western Canada pursuant to the proposal of Manitoba do
22 you think that you would have to take any action else-
23 where if that became operative in one section of the
24 country?

25 A. I think if it is adopted as a principle
26 it would have to apply all over. I do not think you
27 can confine it to just one part of the country.

28 Q. And would, in your view, such a principle
29 of constructive junction points at all common points
30 served by all railways in Canada have any effect on



1
2 railway revenues?

3 A. It certainly would, it would substantially
4 reduce, it would be bound to, it could have no other
5 effect.

6 Q. Under the existing law, Mr. Edsforth,
7 what is the procedure if there is a suggestion arises
8 for the establishment of a junction point?

9 A. Well, normally application has to be
10 made to the Board of Transport Commissioners to declare
11 that an official interchange exists at the point of
12 question.

13 Q. And have shippers at times discussed
14 this with you or traffic officers? Do you ever
15 have discussions about junction points?

16 A. About putting in interchanges?

17 Q. Yes.

18 A. Oh, yes, many times. Sometimes we
19 agree and sometimes we do not but they always have the
20 right to go before the Board.

21 Q. I would now turn to this other situation
22 which you mentioned a little earlier and that is, you
23 suggested that under the Manitoba proposal this use
24 of other than mileage or route, however large the
25 traffic actually moved in settling mileage rate scales
26 would also be involved in the question of intra-traffic
27 movements. Manitoba did that under this long and
28 short haul part but you thought it should be part of
29 the subject we are now discussing. That is what my
30 note says. The Manitoba evidence is at page 15666 of



1
2 Volume 92 and in particular Table 7 which appears at
3 page 15678. There was some discussion by Manitoba
4 both preceding and following that. You have read
5 that evidence?

6 A. I have.

7 Q. Will you please give the Commission your
8 comments in regard to that evidence?

9 A. Well, what I understand from that evidence
10 is that Manitoba wants rates from a competitive or common
11 point on one railway to a local point on its own line.
12 The same railway pays on a lower combination of mileages
13 if available using the shorter distance from a common
14 point to some intermediate junction of another railway
15 plus the local mileage amount. Now, that sounds
16 a little complicated and hard to follow.

17 Q. I do not think it is. It is in the
18 record and those are matters that I am quite sure
19 will have to be looked at kind of carefully because
20 they sound difficult in words but if you live with
21 them a bit they are not too difficult.

22 A. I think they are best understood by
23 looking at an example.

24 Q. Perhaps that would be the best way to
25 do it.

26 A. Manitoba showed several examples in their
27 Table No. 7 appearing on page 15678 of the transcript
28 and I have just taken one of those, I have taken the
29 case of rates from Vancouver to Heatburg, Alberta.

30 Q. All right, Vancouver to Heatburg and



1
2 under Manitoba's proposal what would happen?

3 A. Well, the mileage from Vancouver to
4 Heatburg is 874.4 miles but the basis on which the
5 class rate is made is 863 because that is a group
6 mileage using New Westminster but under their proposal
7 the rate would be constructed ---

8 Q. Under the Manitoba proposal?

9 A. Yes, would be based, the mileage would be
10 based on the Canadian Pacific distance from Vancouver
11 to Calgary of 641.5 miles to which would be added the
12 Canadian National distance of Calgary to Heatburg of
13 119.3 miles which would produce a total mileage of
14 760.8. It would be on that basis, according to the
15 Manitoba proposal that the class rate or whatever
16 rate it was would be constructed.

17 Q. What you are saying is under the
18 Manitoba proposal although Vancouver is a common point
19 and Heatburg, Alberta, is an exclusive Canadian
20 National point, the rate would be based on Canadian
21 Pacific mileage Vancouver to Calgary plus Canadian
22 National mileage Calgary-Heatburg?

23 A. Yes, that is right.

24 Q. Although the traffic would move, I take
25 it, Vancouver-Edmonton and Canadian National?

26 A. That is right, via their own line.

27 Q. Now, why would you think that you would
28 wish to draw this sort of attention to the Commission?
29 What do you think it indicates?

30 A. Well, I might say very sincerely that I



1
2 am very much opposed to such a method of constructing
3 rates because either one of two results would follow,
4 either line serving the local point would be de-
5 prived of its long haul, in other words, it would be
6 short haul, or that line would have to haul traffic
7 for a considerable additional distance, in this case
8 over 100 miles for a lower rate. In other words,
9 it would substantially reduce their revenue.

10 Q. Is it an accepted principle in railway
11 matters or is it not, that railways do not short haul
12 themselves?

13 A. It is an accepted principle that the
14 railways are entitled to the longest possible haul on
15 an interline movement, the line that originates the
16 traffic.

17 Q. What about the shippers? Would it
18 have any effect on the shippers that you envisage that
19 would cause any difficulty?

20 A. Well, once again it introduces construc-
21 tive mileages, as I term them, and certainly you could
22 not have the through class rate equalization under
23 that kind of formula. I say this for the reason
24 that -- take the movement from Vancouver to Heatburg
25 travelling 874.4 miles, they would actually get a
26 rate base of 760.8. In another part of the country,
27 take for example Pine Falls to Edmonton, that is a
28 haul of 864.5 miles.

29 Q. Pine Falls to Edmonton, are those two
30 local C.N.R. points?



1
2 A. No, Pine Falls is local but Edmonton is
3 competitive.

4 Q. Yes?

5 A. But taking that as an example, the
6 Canadian National distance is 864.5 miles and there is
7 no way of constructing some lower mileage by using
8 some other railway.

9 Q. In other words, the development of the
10 mileage such as in your other example is physically
11 impossible because of the way the railways are laid out?

12 A. That is right, so that shipper shipping
13 from Pine Falls to Edmonton would pay the rate for his
14 full mileage while a shipper from Vancouver to Heatburg,
15 a little bit longer distance, would pay a much lower
16 rate.

17 Q. To take an example, the shipper of news-
18 print, Vancouver to Heatburg in the Manitoba proposal
19 and in the second case which was also newsprint because
20 I think Pine Falls does make newsprint?

21 A. Yes.

22 Q. Do you think this would cause any diffi-
23 culty?

24 A. I think it would, very certainly. The
25 man at Pine Falls would certainly think he was placed in
26 an unfair position.

27 Q. Is there anything more you want to say
28 on the interline situation?

29 A. No, I do not think so.

30 Q. The part on long and short haul that you



1
2 have dealt with here, there is nothing more?

3 A. Nothing more.

4 Q. The next point, and I have only one
5 question on this, is equalization of mileage commodity
6 scales. The Commission will recall Mr. Stechishin
7 dealt with the equalization of commodity mileage rate
8 scales, that is Mr. Chairman and Commissioners, scales
9 that the Board -- commodity scales the Board had
10 equalized, and the position of Manitoba was that these
11 were published by railways only within the west and
12 within the east but not between the west and the east
13 or, as they might put it, between the east and the
14 west. The result, they said, was that the railways
15 were not complying with the requirement of equalization
16 that equalized mileage commodity scales would be
17 required to be operative throughout the systems of
18 the railways. Now, you remember this part of the
19 transcript?

20 A. Yes, I have read it.

21 Q. Volume 92, page 15652 and a number of
22 other pages and places?

23 A. Right.

24 Q. Your comment, please?

25 A. Well, Manitoba is quite right, that is
26 what is required and certainly if there is any need for
27 these scales for application between east and west we
28 will put them in. Certainly there is no point in
29 doing it unless there is traffic to more.

30 Q. Well, if you do not put them in on a



1

2 full scale basis, how can you give shippers who are
3 moving their traffic the same rate as if they were
4 published?

5 A. Well, very simply, by putting in the
6 point to point or a specific rate equal to the mileage
7 scale for the particular distance. We can do that
8 any time, no reason why we would not do it.

9 THE CHAIRMAN: Is that done now?

10 THE WITNESS: I do not know that the point
11 has come up. I do not know of any case -- I think Mr.
12 Stechishin did have one example where they were using
13 a combination.

14 MR. SINCLAIR: Q. We can only speak for
15 the Canadian Pacific. What I am trying to say to you
16 now, Mr. Edsforth -- are you saying to the Commission
17 that as far as Canadian Pacific is concerned if these
18 points were brought up to you that you would publish
19 a specific rate on a through basis?

20 A. Yes, sir, I most certainly would.

21 Q. That is one that I think perhaps we
22 agree on, Mr. Mauro.

23 THE CHAIRMAN: That is encouraging.

24 MR. SINCLAIR: Q. I think what we wish to
25 say to the Commission on that is this -- so it won't
26 have to be dealt with any more -- we can accomplish the
27 same result, in our opinion, without all the expense
28 of publishing all the rates?

29 A. That is it. Of course, if there is
30 going to be steady movement from many, many points between



1
2 the east and west on the mileage scale, sure, we will
3 put the scale in.

4 Q. Now, the next point I wish to deal with,
5 and again this is Manitoba and this is the suggestion
6 of Manitoba concerning the publication of rates on a
7 per car basis?

8 A. Yes.

9 Q. Per car rate is what we would describe
10 it as?

11 A. Yes.

12 Q. Page 15799 of Volume 92, Manitoba dis-
13 cussed the question of rates per car rather than per
14 ton or per 100 pounds. They dealt with this and they
15 also included in this part of their submission the
16 question of incentive rates?

17 A. Yes, that is right.

18 Q. According to my note here?

19 A. They do, yes.

20 Q. Now, what are your views in regard to
21 this part of Manitoba's submission? You have read
22 it and considered it?

23 A. I have, yes. My views are these, that
24 certainly I have no quarrel with Manitoba about incentive
25 rates, in fact, I am all for them. I think both
26 Canadian railways are using them quite extensively
27 these days and I imagine as time goes on there will be
28 more of them. However, I do not believe a per car
29 basis and I am rather strongly of the opinion that the
30 per car basis should not be used because I do not



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18121

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2 consider it properly takes care of the situation. Now,
3 I say this for the reason that, and, of course, depending
4 on what basis your per car rate is constructed on, what
5 rate you use, some shippers are going to have part of
6 their freight haul through and this will be a penalty.

7 Q. Take that example shown by Manitoba, and
8 I presume it was just an illustration once again?



1
2 Q. Yes, I think Mr. Mauro and Mr. Stechishin
3 made this clear?

4 A. I think so. At page 15803 and 15804 ---

5 Q. Is that volume 92?

6 A. Yes, I think that is in volume 92; the
7 suggestion was made that you might calculate a per car
8 rate on a weight of 50,000 pounds, and say that it will
9 be so many dollars per car to move that traffic for
10 such and such a haul. Well, that might be all right
11 for the man who is just loading 50,000 pounds; it
12 would be the same result, whether on a car basis or
13 for 100 pounds. But, the shipper who loads, say,
14 70,000 pounds, he gets the same charge as though
15 there was just 50,000 pounds in the car. In other
16 words, he gets free transportation on 20,000 pounds.
17 Similarly, the man who is only able to put 40,000
18 pounds in pays a penalty.

19 In my opinion, the proper way to do it is
20 to keep your unit per ton or per 100 pounds as the
21 unit on which you assess your charge, and then make
22 your incentive rates with relation to the minimum
23 weight loaded in the car. In other words, graduated
24 rates for graduated minimum weights. I think that
25 is really a better system, fairest to all -- the rail-
26 ways and the shippers.

27 Q. Does the Manitoba suggestion here, or
28 doesn't it, not give weight to -- you have mentioned
29 loadability -- or, weight?

30 A. Yes.



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2 Q. Does it give effect to the value of the
3 commodity?

4 A. Well, apparently not. As I read the
5 submission it seems that the level of rates would be
6 determined with relation to cost factors alone, and I
7 don't think that is right because I think the value
8 considerations should come in. It is not enough
9 in looking at cost factors just to look at the cost of
10 handling a carload, because other factors come into
11 that: the weight loaded per car as an incidence on
12 the cost, length of haul, and revenue per ton mile
13 are things you must look at.

14 Q. Is there any further comment you would
15 have if you were basing rates on a per car basis that
16 you would find difficult in dealing with it as a
17 practical traffic man?

18 A. Well, I don't know, except that, cer-
19 tainly, you could not make the same per car charge for
20 all types of traffic. You would have to have
21 variations according to the kind of goods loaded to
22 give weight to the various characteristics.

23 Q. Thank you.

24 A. But I don't think the car rates are the
25 proper answer. I am strongly of the opinion that
26 incentive rates based on a graduation in the rates with
27 relation to the minimum is the proper way to do it.

28 Q. In their submission, that was dealt
29 with by Manitoba -- and I do not wish to spend too
30 much time ---



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THE CHAIRMAN: They were pretty busy.

MR. SINCLAIR: As I said in starting, Mr. Chairman, I don't want anybody to suggest we are picking Manitoba out.

THE CHAIRMAN: I know.

MR. SINCLAIR: Of the people who have appeared before the Commission they are the only group who to any extent at all have looked at the terms of reference in a number of ways in regard to its ramifications in the freight rate structure, and these various points. I know of nobody who has done the same amount of work on this area as Manitoba has done. That is why it is all directed to Manitoba. I could pick out other people who have come up here and there, but this is where it is pretty well drawn together, and my friend is not at all sensitive about my doing it.

MR. MAURO: No; I am honoured.

MR. SINCLAIR: Q. This has to do with aggregate of intermediates?

A. Yes.

Q. And this is dealt with at page 15830, Volume 93, and this was the question of applying aggregate of intermediates where such a combination makes lower than the published through rate. Manitoba suggested something that was akin to the provision of section 4 of the Interstate Commerce Act?

A. Yes.

Q. Requiring the railways to apply the aggregate of intermediates where they would make lower?



1
2 A. Yes, they suggested that the Railway
3 Act should be amended to put in some provision akin to
4 that in section 4 of the Interstate Commerce Act.

5 Q. In regard to this point?

6 A. In regard to this point, of course -- oh,
7 yes.

8 Q. There are other things in section 4 that
9 Manitoba have not supported?

10 A. Quite so.

11 Q. Now, on this point, the aggregate of
12 intermediates?

13 A. Yes. Well, on that Canadian railways
14 have put in a rule in their tariffs which is really a
15 little bit more than the aggregate of intermediates
16 because it is a straight combination rule. In other
17 words, the rule we have permits the application of a
18 combination of rates when it produces a lower charge
19 than the through rate published in any of the tariffs.
20 In other words, it does not have to be some inter-
21 mediate point before you can use the combination. It
22 can be any point over which the traffic could be
23 moved to make a joint through rate.

24 Q. Mr. Stechishin mentioned this?

25 A. Yes, that is right, and I can't really
26 understand why we need to put something in the law to
27 ask us to do something we have already done voluntarily.

28 Q. I think Mr. Stechishin said he thought
29 it might be useful because you might change your way
30 of living, shall we say, and he wanted to be sure?



1
2 THE CHAIRMAN: Or there might be a new vice
3 president.

4 MR. SINCLAIR: It is for this reason I want
5 to ask this question.

6 Q. Why do you have an aggregate or combina-
7 tion -- or whatever was the proper word -- rule? Why
8 do you do this?

9 A. Well, Mr. Sinclair, for a very practical
10 reason in that if you don't have that rule and there is
11 some restriction against making a combination like that,
12 all the shipper has to do is bill his car to the point
13 over which the combination is made and then re-bill it
14 on again. There is no advantage to anybody in that.
15 It puts the shipper to additional work and some ex-
16 pense and the railways to additional work and expense.
17 So, to me, the combination rule is what I term a
18 commonsense rule, and, goodness knows, no one has a
19 monopoly on common sense. So, I doubt if the railways,
20 having put this in, are ever likely to take it out.
21 I don't see that they would.

22 Q. It may be described in this way, that
23 once having got religion it is very unlikely they will
24 lose it?

25 A. Well, you can put it that way.

26 Q. Even though they might have other vice
27 presidents of traffic than you?

28 A. Yes. I don't think that will make any
29 difference at all.

30 MR. SINCLAIR: Mr. Chairman and members of



1
2 the Commission, the matters I now wish to deal with are
3 these matters from Alberta -- maybe I should ask Mr.
4 Edsforth this.

5 Q. Are there any other parts of the Manitoba
6 submission that you feel you would like to point up
7 on traffic matters on which you feel that evidence is
8 necessary? I have no doubt I will receive some in-
9 structions from Mr. Edsforth as to submissions to make
10 to the Commission, but I mean on which you feel evidence
11 should be brought?

12 A. I don't believe so at the moment, sir.

13 THE CHAIRMAN: Well, if you are going to
14 touch Alberta, I think we will wait for Mr. Frawley
15 and we can rise now until two o'clock.

16
17 ---Luncheon adjournment.
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-- On resuming at 2 p.m.

THE CHAIRMAN: Order, please. Mr. Sinclair?

MR. SINCLAIR: Q. Alberta, Mr. Edsforth, made a submission here, the document being entitled "Transportation in the Economy of Alberta, with particular reference to freight rate relationship", which was given in evidence by Dr. Harries. It is found in transcript starting at page 16477 and following, of volume 97.

Now, Dr. Harries said that the material he was presenting to the Commission -- he termed it this way: it was a new approach to railway price policy and he discussed this particularly at pages 16521 in volume 97 and the following pages.

Have you read that evidence?

A. Yes, I have.

Q. What are your comments on it?

A. Well, the new approach to railway price policy as advanced by Dr. Harries originally was a suggestion that a maximum rate level should be established based on 40% over the lowest competitive rate on any particular commodity. I think later on in his evidence ---

Q. That can be found, I think -- you have given me a note that that can be found in volume 97, page 16527?

A. Yes, that is right. And, later on, during your cross-examination of Dr. Harries at page



1
2 16714 in volume 98, he agreed that this might be
3 amended to 40% over the lowest of any rate, whether it
4 be competitive, commodity, agreed charge or a class rate,
5 or what have you.

6 Q. And I think, if I am right -- maybe you
7 can see whether your recollection is the same -- he
8 said that would be better?

9 A. Better, that is right.

10 Q. That was his phrase?

11 A. Yes, that it would be better.

12 Q. The amended basis would be better?

13 A. Right.

14 Q. Yes?

15 A. Well now, on either basis, I think the
16 principle is a bad one. And I say this because, in
17 the first place, this would create an unstable
18 foundation for any type of maximum rate. Certainly
19 setting maximum rates on rates established to meet
20 competition would be most unsatisfactory. I think that
21 in that particular context Dr. Williams had some comment
22 to make. I have a note that at page 17121 during cross-
23 examination of Dr. Williams he made a statement about
24 that. Perhaps I might refer to it.

25 Q. It was another of the economists called
26 by Alberta?

27 A. That is right.

28 Q. Yes?

29 A. And the reference I have is page 17121
30 of volume 102. During your cross-examination, you said



1
2 to him:

3 "Dr. Williams: A. If I understand you, you
4 are referring to the process by which one
5 should determine the level of the maximum
6 rates?

7 Q. Yes.

8 A. I find it a rather unsatisfactory thing
9 to try to make a mark-up on a competitive rate
10 for that purpose. "

11 And that purpose, of course, was fixing of
12 maximum rates as referred to in your previous question
13 to him.

14 Q. Yes?

15 COMMISSIONER GOBEIL: May I ask a question?
16 I took a note, but I just realized that I will not be
17 here on cross-examination.

18 Did you say that the maximum rate to meet
19 competition is most unsatisfactory?

20 THE WITNESS: It is the most unsatisfactory
21 basis on which to establish the maximum rate, Mr.
22 Gobeil.

23 COMMISSIONER GOBEIL: Oh, I see.

24 MR. SINCLAIR: That would apply ---

25 THE WITNESS: On all traffic.

26 MR. SINCLAIR: Q. Irrespective of whether
27 there is competition existing or not, is, I think,
28 what you are saying?

29 A. That is right.

30 Q. Maybe you would expand on that?



1
2 A. Well, that is exactly what I had in
3 mind, that a rate put in to meet competitive conditions
4 in one part of the country should certainly not be
5 used as the gauge for setting maximum level of rates
6 on that same commodity in all parts of the country,
7 particularly where competitive conditions are not the
8 same.

9 That is why I say that it is an unstable
10 foundation, an unsatisfactory base.

11 Furthermore, it has this other disadvantage,
12 that competition changes from time to time, so that
13 the level of the competitive rate could move up and
14 down quite rapidly, thus necessitating a change in
15 the maximum: a great instability.

16 Q. For example, in view of Commissioner
17 Gobeil's question to you, reference has been made in
18 these proceedings to the publishing of spot rates
19 to meet competitive conditions and these spot rates,
20 I think it has been said, are applicable at times for
21 only limited periods?

22 A. For individual movements, yes.

23 Q. You put them in and take them out?

24 A. That is right.

25 Q. They might be there for a week?

26 A. A month or something like that.

27 Q. Or six months?

28 A. Yes. We certainly could not set a
29 maximum on those.

30 Q. And to some degree the variability of



1
2 competition is a matter that you are dealing with all
3 the time in competitive rates?

4 A. At all times, yes.

5 Q. Now, do you have any other reasons for
6 saying that in your view that it was not a sound
7 foundation for a rate structure; the basis put forward
8 by Dr. Harries?

9 A. Yes, I have. The basis that he used and
10 it does not make a great deal of difference whether it
11 is 40% over the lowest competitive rate or 40% over
12 the lowest rate, if it is related to individual rates
13 for individual hauls, then you would have a most
14 unrealistic rate structure. And by that I mean that
15 you might have a fairly low competitive rate for a
16 haul of 100 miles which, when increased by 40%, would
17 set the maximum level of rates for all hauls of 100
18 miles in the country.

19 Then, you might have, for 200 miles, a
20 completely different kind of a rate. It might be a
21 competitive rate, or some other kind, but on a higher
22 level, depending on the conditions, and that increase
23 of 40%, that would produce another maximum for that
24 haul.

25 Then, at 300 miles, you might have a very low
26 rate, again, possibly to meet water competition or
27 some factor of that kind. It could even be lower than
28 the 200 mile rate. So, you could very well have a
29 lower maximum rate for 300 than for 200.

30 In other words, your maximum scale would just



1
2 go up and down, depending on what kind of rate was
3 used for the base.

4 Q. And would you expand on the agreed
5 charge being the lowest rate. Dr. Harries said in
6 answer to my question he would take any rate to be the
7 lowest. Now, if you had an agreed charge of 100%
8 contract basis ---

9 A. Yes.

10 Q. --- to meet carrier competition?

11 A. Competition of some kind, yes. That,
12 again, would set a most undesirable type of a maximum,
13 because I would not think the maximum based on a
14 contract rate with particular conditions attached
15 should be used as a basis for setting a maximum on
16 all rates, where no similar conditions would exist.

17 Q. What about taking a commodity rate?
18 Now, to carry this through, what about taking a low
19 based commodity rate to enable shipments to move freely
20 in one section of the country, and this semi-
21 manufactured relationship to that was handled by
22 competition; could you see any difficulties arising
23 from inter-relationship?

24 A. Well, It could certainly have its effect
25 on inter-relationship of rates in that respect, yes.

26 Q. Any other points you would like to
27 draw to the attention of the Commission in this
28 respect?

29 A. Well, yes, there is this, that if that
30 was decided, that the maximum rates had to be calculated



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2 in that manner, it would prove a great handicap to
3 the railways in meeting competition. By that I mean,
4 that if a competitive condition arose that required a
5 relatively low rate, or even perhaps quite a low rate,
6 the railways would have to stop and decide whether
7 they could afford to put that rate in, in the light of
8 the fact that it might thereby substantially reduce
9 the maximum rate on all other traffic of that commodity,
10 and so in each instance there would be either one of
11 two things happening. Either they would take a fairly
12 long time to find out just what the picture is before
13 they put in the competitive rate -- and, in that event,
14 the traffic might well be lost before the decision is
15 reached, because our competitors would not be under
16 any such restriction.

17 On the other hand, the railways might find
18 that they just could not afford to meet the competition;
19 they just have to let the traffic go, rather than have
20 a low competitive rate setting a low maximum rate.

21 Q. Have you had any experience of legislation
22 bringing about matters similar to what you have been
23 referring to in these latter few minutes?

24 A. Yes, indeed we did.

25 In the one and one-third rule, we found that
26 the application of the one and one-third rule would so
27 drastically reduce our revenue to intermediate
28 territory -- that is, territory intermediate to the
29 British Columbia coast -- that we had to substantially
30 increase many competitive rates, and in other cases



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2 cancel them entirely, and we lost traffic that way,
3 quite a bit of it. That was overcome, eventually, of
4 course, by the making of agreed charges.

5 Q. Now, Mr. Edsforth, during my cross-
6 examination of Mr. Harries, we had quite a little
7 discussion about what is termed "meeting internal
8 market competition", which we have defined as the
9 competition of one Canadian producer with another
10 Canadian producer selling goods in Canada?

11 A. Yes.

12 Q. Now, that is found particularly at
13 volume 98, page 16653 and following.

14 Mr. Harries advanced the proposition that
15 it was perfectly proper, in his view, for Canadian
16 railways to make rates taking into account internal
17 market competition.

18 What is your comment?

19 A. I do not agree with that at all. The
20 railways cannot adjust their rates to meet internal
21 market competition. By that I mean they might give a
22 rate to one Canadian shipper that will give him an
23 unfair advantage in competing with another Canadian
24 producer in reaching a market.

25 Q. Could you be specific? I think Mr.
26 Harries actually gave an example, and following that
27 Commissioner Platt introduced a proposition which
28 was carried through by Commissioner Mann, putting a
29 variation on the theme, and I undertook to have you
30 here to cover these three bases. Would you start with



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2 Mr. Harries' example.

3 A. Well, Mr. Harries said that he
4 considered that if an industry was going to build a
5 plant at a particular location it would be a perfectly
6 proper thing for the railways which might have been
7 handling traffic from another plant to that particular
8 destination to reduce their rates in order to hold
9 their market. With that I do not agree at all. I do
10 not think you can do that. I think it might be quite
11 a proper thing to do if you have a shipper shipping
12 from a particular place into a given market who decides
13 that he might want to put up another plant in that
14 market. Then, it is, in my view, perfectly proper to
15 negotiate a basis of rates which will take care of that
16 situation.

17 Q. You mean take care of it by keeping
18 certain tonnages on the railways?

19 A. Yes, on the rails. A case of weighing
20 out the economic advantages.

21 Q. I will now deal with Commissioner Platt's
22 proposition, as he advanced it, and he made clear that
23 he was looking for information in regard to this, Mr.
24 Edsforth. Commissioner Platt, at volume 98, page 16662,
25 advanced this example of a plant at Hamilton competing
26 with a plant at Calgary, selling their products in
27 Edmonton. And the example or proposition advanced by
28 him, Commissioner Platt, was that the producer at
29 Calgary gradually was taking the market away from the
30 producer at Hamilton.



1
2 Now, the question he raised was could, or
3 should -- I think it's could -- and I will also put
4 in should -- could or should the railways assist the
5 Hamilton producer in retaining the market in Edmonton
6 by means of an agreed charge.

7 What are the facts of the way the matter
8 works?

9 A. No, that could not be done. We do not
10 make agreed charge contracts just on the basis that
11 a shipper will give you such and such a specified
12 percentage of the traffic. That is to say, 100%.

13 Agreed charges are not discount rates. They
14 are not made in consideration of the traffic a shipper
15 will give you. They are made to meet competitive
16 conditions, and that is the basis on which they are
17 negotiated.

18 Of course, the volume of traffic that is to
19 move is an important consideration, but it does not
20 set the rate level.

21 There are only one or two instances that I
22 know of where there has been a difference in the
23 agreed charge rate, depending on the proportion of
24 traffic.

25 Q. You mean the volume moved?

26 A. In the moving, and that was one we had
27 in the case of General Motors making an agreed charge
28 on automobiles to western Canada. And I think, there,
29 they undertook to give us 75% of their traffic on
30 condition that we put in a level of rates to meet motor



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2 truck competition.

3 Then, subsequently, Ford Motor Company and
4 Chrysler Corporation wanted to join in the agreed
5 charge, but they were only willing to offer 55% of
6 their traffic. In that case, we said we would give
7 them an agreed charge, to charge them a higher level
8 of rates, but the underlying consideration of the
9 entire agreed charge was to motor truck competition.
10 The rate was not made in the first instance, I suggest,
11 on the basis of the traffic volume.

12 Q. What you are saying to the Commission is
13 that there is an element, if the man will give you 100%
14 of your traffic, that you can then look at that in
15 relation to what you are prepared to offer him in
16 maximizing your revenues.

17 A. Yes, that is about it.

18 Q. Did you have another example? I think
19 there is another example in the agreed charges on
20 somewhat a different basis that might be of interest
21 to the Commission, and I have in mind coal agreed
22 charge in western Canada.

23 A. That turns a little different way,
24 and that is an agreed charge we made with the Manitoba
25 Hydro Electric Commission for handling coal from
26 Estevan, their thermo plant at Brandon. In that case,
27 we made the agreed charge on the basis of meeting
28 natural gas competition. The condition of the agreed
29 charge was that the thermo electric plant would use
30 a certain proportion of coal in producing electricity,



1
2 or a specified tonnage, whichever was the lower..

3 Q. Have you any agreed charges that turn
4 on tonnage shipped, or are there any of those in the
5 ---

6 A. Well, I think there is one that has
7 been under negotiation, and I cannot be certain whether
8 it is in effect now. That is based on a lower rate
9 being applied on a higher volume of tonnage, but other
10 than that, no. Agreed charges are based on a
11 percentage of traffic, not on a specified traffic
12 volume or a tonnage volume.

13 Q. Now, is internal market competition an
14 element, or is it not, in an agreed charge?

15 A. No, it is not.
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2 Q. Now, take Commissioner Platt's example
3 as it is expanded by Commissioner Mann; he did not
4 put it quite the same way and I would like to deal
5 with Commissioner Platt's example with the principle
6 enunciated in Commissioner Mann's first. That was a
7 movement from Calgary into Edmonton and you said you
8 would not meet it. However, let us say the movement
9 from Calgary to Edmonton was a carrier truck, the
10 movement from Calgary to Edmonton was by truck and
11 the movement from Hamilton to Edmonton was by rail,
12 what about that situation?

13 A. That would be a case where perhaps two
14 producers were supplying the same article in Edmonton,
15 perhaps both shipping originally by rail and the
16 Calgary producer got a much lower rate by motor truck
17 and the rails did not get any of the traffic from
18 Calgary. In that case I think the railways would
19 and should put in an agreed charge or competitive rate
20 or whatever is needed on a basis sufficient to maintain
21 the competitive position of the Hamilton producer.

22 Q. Now, let us take the situation ---

23 MR. FRAWLEY: Would you give the Hamilton
24 shipper the same rate as the Calgary?

25 THE WITNESS: Not at all, I said sufficient
26 to meet the changing conditions.

27 MR. FRAWLEY: I do not know what else that
28 means.

29 THE WITNESS: That would have to be deter-
30 mined by the facts.



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2 Q. And in making that rate using the term
3 "sufficient to meet the situation" what would be the
4 determining factor as to how low you could go in the
5 rate?

6 A. Well, of course, what would set the
7 lowest level of what you could give would naturally be
8 your variable cost of handling the traffic plus a
9 contribution. That would be the lowest you could do.

10 Q. Now, take Commissioner Mann's situation
11 at page 116664 and he raised it on the basis of where
12 the producer that is a short distance away from the
13 market versus the producer that is a long way away
14 from the market and one of the plants might use an
15 alternative medium, he said, almost exclusively. Now,
16 is there anything you can explain in Commissioner
17 Platt's example, he used the word "exclusively", what
18 about the qualification "almost exclusively"? What
19 situation do you find yourself in now?

20 A. Well, that would be so long as both
21 shippers were using rail, to some extent then I think
22 you could not make adjustment either way.

23 Q. Without giving it to the other?

24 A. That is right.

25 Q. Have you covered the example of where
26 you would be in a rate to maintain traffic where a company
27 was considering putting a plant in one market where it
28 had been serving it from a more distant supply?

29 A. Yes.

30 Q. Now, have you considered the position -- I



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2 am not sure whether we covered this or not -- where
3 there was a new firm that came in who was going to build,
4 say, in Edmonton and there was a firm at Winnipeg that
5 had been serving the Edmonton market?

6 A. This was a point you mentioned to me
7 that Dr. Harries had covered and I said no, you could
8 not and should not then reduce the rate from the point
9 at which you had been handling the traffic.

10 Q. And that example that I have been speaking
11 about where the carrier was exclusively using trucks
12 on the short haul Calgary to Edmonton as against the
13 rail shipper long haul Hamilton to Edmonton, what kind
14 of competition would you think you would be meeting by
15 the agreed charge or competitive rate?

16 A. Carrier competition because this would
17 change the situation.

18 COMMISSIONER MANN: May I just without dis-
19 turbing this trend of your examination ask Mr. Edsforth
20 whether the situation changes if one railway put in a
21 low rate to a market, does the other railway then try
22 to meet the first railway's rate to the common market.
23 Would that be carrier competition? You see, you have
24 talked about intermotor competition and I want to know
25 about intramotor competition.

26 A. Well, what you are talking about there,
27 I take it, is both -- there are two separate regions,
28 one on one railway exclusively, one on the other railway
29 exclusively serving a common market and one railway
30 reduces its rate presumably to meet competition or



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2 something of that nature.

3 COMMISSIONER MANN: Let us just say out of
4 the generosity of its nature.

5 THE WITNESS: Well, I think in that case
6 then a reduction from the other shipping point would
7 be perfectly justified.

8 COMMISSIONER MANN: Thank you.

9 MR. SINCLAIR: Q. If, Mr. Edsforth, that
10 situation did arise and the second railway met that
11 situation by lowering its rate to the relative level
12 of the first railway, would the tariff published be marked
13 "Competitive"?

14 A. No, I do not think so -- I do not know
15 but I doubt it.

16 Q. And if it was not so marked would that
17 basis be applicable to other movements?

18 A. That is right.

19 Q. But if the other railway had instituted
20 the rate to meet carrier competition and the second
21 railway put in the rate relatively to the same level to
22 meet the situation that had arisen, would that be marked?

23 A. That would be perfectly proper to mark
24 it "competitive" and that is what would be done because
25 the carrier competition would be the genesis of the
26 whole thing.

27 Q. Now, the evidence of Dr. Williams and
28 Dr. Roberts in one respect was the same and I will come
29 to that in a minute. I first want to deal with one
30 aspect of it where Dr. Williams dealt with Dr. Roberts --



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2 I am speaking of Dr. Williams and Dr. Roberts as
3 called by the province in the first instance of Manitoba
4 and Alberta and the second instance of Alberta. Dr.
5 Williams in his evidence appearing in Volumes 102 and
6 103 in a number of places in the transcript made refer-
7 ence to the freight classification and classification
8 of freight under the well known basis of a freight
9 rate classification. In Volume 101 at page 16979
10 he referred to many of the traditional classification
11 principles and then Mr. Brazier had a discussion with
12 him on this matter at page 17056. I also had some
13 discussion with Dr. Williams about this at page 171114.
14 Both Mr. Brazier and I were discussing this in the
15 context of the classification as it existed in the
16 United States. Do you remember this evidence?

17 A. Yes.

18 Q. And you have read this?

19 A. Yes, I have.

20 Q. Now, I wonder if you could tell this
21 Commission about what the situation is with regard to
22 the classification in this country, in Canada, the
23 Canadian Freight Classification in regard to some of
24 the matters and the points raised by Dr. Williams in
25 dealing with the United States classification?

26 A. Well, I think Dr. Williams was referring
27 there to the new uniform freight classification that
28 came into being in the United States following the
29 decision of the ICC in Docket 28300.

30 Q. That is the class rate investigation?



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2 A. Yes, the class rate investigation in
3 Canada, the Canadian railways revised their freight
4 classification and that came into effect on March 1st,
5 1955. That also was termed a uniform freight classifi-
6 cation and it was put in in part because of the new
7 equalized class rate scale. Canadian railways for
8 some time had been working on a revision of the classifi-
9 cation to bring it up to date and they appointed a
10 special classification committee to do that work under
11 the chairmanship of two former senior freight traffic
12 officers, one from the Canadian National and one from
13 the Canadian Pacific. Now, that committee worked
14 for a period well over two years, I think, and in the
15 course of it they did a complete revision of the entire
16 classification. They did not just take the old classifi-
17 cation and reprint it incorporating changes that had
18 been made in the previous one, they went to work and
19 did a complete new job on it. In the course of that
20 they conferred with trade groups all over the country,
21 individual shippers, shipper associations and generally
22 did their best to get all the information they could
23 possibly get.

24 Q. And the views --- ?

25 A. And the views of the people who were
26 going to be using the classification, that is, the
27 shippers. As a result a completely new classification
28 came out, routes brought up to date, ratings brought
29 up to date.

30 Q. Is there any continuing process in Canada



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2 to keep the classification fluid in meeting changing
3 conditions?

4 A. Yes, there is.

5 Q. How does that work?

6 A. There is a standing classification
7 committee under the chairmanship of a ranking officer
8 of the Canadian Trade Association and he has with this
9 committee traffic officers of the railways who are
10 well versed in these matters. That committee meets
11 regularly to discuss classification changes, new
12 applications and so forth.

13 Q. Who would make the applications?

14 A. Interested shippers, people who have
15 goods to ship, either a new product they are putting on
16 the market or perhaps they feel that conditions have
17 changed or something has changed in respect to the one
18 that is already covered necessitating some change in
19 the route or ratings.

20 Q. Do some of these shippers appear before
21 the committee?

22 A. Oh, yes, they appear before the committee
23 and discuss their problem. The committee endeavours
24 to develop all possible types of information they can
25 about the commodity that is to be classified and the
26 things that are relevant to it and would be useful as
27 a guide determining the rate. It is significant to note
28 that since the classification was issued on March 1st,
29 1955, there have been 22 supplements issued and I be-
30 lieve Supplement 23 is now in process. This is not a



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2 rigid thing, it moves and changes as conditions
3 require or new commodities come along.

4 Q. Now, the evaluation of elements to
5 determine the classification has been dealt with here,
6 I have a note, about the relative weight given to the
7 characteristics that have been put before this Commis-
8 sion as to what determines the classification rating.
9 Since I have made this note, there were some questions
10 put to Mr. Roberts and he dealt with this, do you remember
11 that?

12 A. Yes, I have read that.

13 Q. Do you want to add anything to it?

14 A. No, I think the reference there is to
15 pages 17809 and 17810 of Volume 107. I have read
16 all that and I think it very clearly portrays the
17 situation.

18 Q. You have nothing to add to it?

19 A. I have nothing to add to it.

20 Q. Now, I come to the one other point in
21 particular that I would like to deal with in regard to
22 these submissions of Dr. Williams and Dr. Roberts and
23 that has to do with the test of reasonableness of an
24 individual rate. Now, first, Mr. Edsforth, how do you
25 test the reasonableness of an individual rate in Canada
26 today?

27 A. Well, first, by comparison with other
28 rates on the same commodity in order to maintain a
29 reasonable relationship with other rates.

30 Q. Just right there, you have other things



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2 that you look at, but right there that was referred to
3 by both Dr. Williams and Dr. Roberts as being, sum-
4 marizing, really useless because of this what they
5 term circular reasoning. Do you remember that
6 phrasing?

7 A. That is right, I remember that. By
8 that I think they mean we just went around in a circle
9 comparing one rate with another and getting back to
10 where we were but that is not testing a rate in the
11 way I had in mind. What I had in mind was to maintain
12 a reasonable relationship so your structure will not
13 get all out of balance.

14 Q. And having done this test to maintain the
15 relationship of rates within the structure do you do
16 anything else?

17 A. Oh, yes, you certainly do, because a
18 reasonable rate is one that must at least meet the
19 variable cost of handling the traffic plus something more.
20 That is, as a minimum, and above that it should be at
21 a level which will enable the traffic to move freely and
22 make the maximum net revenue contribution.

23 Q. Yes. How do you determine that in a
24 given case?

25 A. Well, in a given case you would determine
26 it first of all by conferring with the shipper, looking
27 at the product involved, determining what the market is
28 and any relevant facts you have got. In other words, you
29 negotiate with the shipper on it. Now, further than
30 that, of course, any overall maximum level of rates must



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2 not only be high enough but of a sufficient range in
3 levels to prevent any rigid restriction that would
4 tend to unnecessarily reduce the net revenue contri-
5 bution. By range in maximum levels I mean that the
6 rates should vary with relation to the type of traffic
7 involved having regard to the value of the service
8 performed so that the maximum rate on one type of
9 commodity may be quite different from that of another.
10 This is accomplished by the classification of goods
11 in the freight classification which I have just
12 described.

13 Q. Those are the three things that you
14 do in Canada today to test the reasonbleness of an
15 individual rate level. In the last one that you
16 have just spoken about when you said you looked to the
17 classification, do you look to the classification and
18 the relationship of various rates in that classifi-
19 cation?

20 A. Yes, very frequently that is done to
21 test the reasonableness.

22 Q. And do you or do you not look at the
23 movement of these goods in relationship to a class rate
24 or a maximum rate over time to see if there is any
25 movement in the relation in percentage over a period
26 of time?

27 A. Yes, that is right. Over a period
28 of time you would look at that to see if relationships
29 are changing or should change.

30 Q. Now, Dr. Williams and Dr. Roberts



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2 having only, I suggest, dealt with part of what your
3 answer is, nevertheless they did, I think, notwithstanding
4 the fact that they might not have dealt with all the
5 aspects of how you test a reasonable rate in this
6 country, at least they did propose what they termed
7 something better, in their opinion, for this Commis-
8 sion's consideration. That was an external test of
9 reasonableness of an individual rate. I think it would
10 be fair to say in summary of it that while it might
11 have some difficulties, it was pointed out to them
12 in the final analysis, they fell back on the suggestion
13 that it has disabilities in their view but it was
14 better than what we had. I think that is a fair way
15 of putting it. Would you think that summarizes it
16 having read their evidence and the cross-examination?

17 A. Yes, I think that approximately summar-
18 izes it.

19 Q. Now, having determined in your mind
20 what you think is necessary to have in mind in testing
21 the reasonableness of an individual rate and looking
22 at the proposals advanced by Dr. Williams and Dr.
23 Roberts, tell this Commission what you think of their
24 proposal and whether you think it is important. I
25 perhaps should state to the Commission so there is
26 no misunderstanding about this that Dr. Williams said
27 in his submission that he thought he would support
28 an external force of reasonableness and he did not
29 advance any plan but made reference to Dr. Roberts
30 who was following and that is the reason why I tie the



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2 two together. Now, what do you think of this plan
3 advanced and explained by Dr. Roberts which Dr.
4 Williams based his submission on?
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2 A. Well, I do not think it would be a good
3 thing to be introduced into the Canadian freight
4 rate structure; in fact, I think it would be bad for
5 many reasons.

6 Q. Give us some?

7 A. I don't think the external test of
8 reasonableness as it may be termed really does meet
9 the test that I consider should be the proper test
10 for reasonable rates.

11 Q. Why?

12 A. Well, in the first place it would
13 establish a flat maximum which would not have any
14 regard for the different characteristics of the
15 commodities handled and their ability to move freely
16 at different rate levels.

17 Included in such characteristics would be
18 the loadability of the traffic, perishable or fragile
19 nature of the goods, the type of equipment required
20 for handling, and the value of the goods themselves.
21 In other words, the factors that enter into deter-
22 mining the classification ratings.

23 The proposal for maximum rates as it was
24 advanced, I think, by Dr. Roberts was that this would
25 be related to the total cost of handling traffic in
26 Canada.

27 Q. Yes?

28 A. With some upward adjustment made for
29 the fact that if you applied a uniform level on this
30 basis some traffic would be lost; but it would be



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2 difficult to determine the average costs in Canada in
3 order to arrive at a maximum level in the way Dr.
4 Roberts suggested. I say this because it is compli-
5 cated by the fact that over one-quarter -- more than
6 a quarter -- of Canadian Pacific freight revenue is
7 derived from international traffic, that is, traffic
8 moving between Canada and the United States; overhead
9 traffic, that is, traffic moving from one point in the
10 United States to another through Canada; and rates
11 within Canada related to rates in the United States
12 for competitive reasons.

13 Q. You said "over one-quarter": is this
14 over one-quarter by revenue?

15 A. Oh, yes, by revenue.

16 Q. What about volume? Would it be more
17 or less than that?

18 A. I would think, although I have no
19 figures to support it, that it would be less because
20 generally international traffic is quite high valued
21 and fairly high rated, and the same with the overhead
22 traffic we handle.

23 Q. Yes?

24 A. The rates on these categories of traffic
25 I have just mentioned are increased at the same time
26 as the United States rates are increased, and the
27 practical necessity for doing this is well recognized
28 and has been for many years. Therefore, these rates
29 are not set with relation to cost of handling Canadian
30 traffic and do not change in direct response to changes



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2 in Canadian railways' costs.

3 Under the circumstances, a maximum level of
4 rates determined on an average of the cost of handling
5 all traffic on Canadian Pacific would not be realistic
6 or practical for application to these three traffic
7 categories. It would, therefore, be necessary to
8 separately determine the total costs of freight traffic
9 moving in Canada for which the rates are not in any
10 way related to the United States rates. This would
11 be a tremendous task.

12 Q. What do you mean by that -- that if you
13 took the average, as suggested by Dr. Roberts, because
14 of the large proportion of traffic moving at inter-
15 national and related, and the large revenue factor in
16 that, that the only way you could do it, although it
17 wasn't suggested by them, would be to carve that out
18 and look at the balance of the traffic?

19 A. That would be the only practical way I
20 would see of doing it.

21 Q. How would you do that?

22 A. You would simply have to get a record
23 of all the traffic they handled on purely Canadian rates
24 -- point to point -- and get the volume and ton miles,
25 and so forth.

26 Q. How would you get the cost relationship?

27 A. I am afraid I am not sufficiently conver-
28 sant in costing, but I think there would be some great
29 problems.

30 Q. Is this international traffic homogeneous?



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A. In what respect?

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Q. Well, for instance, I will give you a homogeneous movement, and that would be the movement of grain to export positions in western Canada; that is a very homogeneous movement. Now, would international traffic fall into that type -- is it all a similar commodity or relatively similar?

9

10

A. Oh, no; it is all kinds. There is great variation in the commodities.

11

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Q. And does it follow an established pattern? Are the traffic movements channeled in patterns that go on without marked change in relationship to the various types within it?

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A. No. There will be variations, of course, in the traffic pattern as market conditions change. Some of it has a fairly regular movement, such as newsprint and wood pulp.

19

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Q. Does it all move in the same types of equipment?

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A. No, not all.

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Q. Does it all have the same claims characteristics?

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A. No, there are variations.

MR. FRAWLEY: The only thing homogeneous about it is that it escapes all Canadian increases.

MR. SINCLAIR: I am glad my friend said that because even under the proposition he advances it could not be, in our respectful submission, handled in any different way than it is today without great



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2 dislocations and great loss to the Canadian economy,
3 and I thank my friend for drawing that to our attention
4 and enabling me to make that statement to the Commission.

5 Q. In view of that being cleared up by Mr.
6 Frawley in such a clear way, Mr. Edsforth, maybe we
7 can move on to another matter which you would find, as
8 a practical rate man, objectionable, if I may use that
9 word, in the proposition of this external test of
10 reasonbleness as advanced by Dr. Roberts?

11 A. Well, to the extent rates lower than the
12 maximum so established would have to be applied in order
13 to obtain the traffic and move freely -- and I think
14 Dr. Roberts agreed this must be done or would probably
15 be done -- the theoretical maximum revenue could not
16 be obtained. It would be something less than that.
17 But, on the other hand, the extent to which traffic
18 could move at higher rates than the maximum, but for
19 which the maximum rates could not be exceeded, this
20 would reduce the revenue contribution and, of course,
21 the result would be that the railways would be pre-
22 vented from obtaining the maximum revenue contribution
23 from the free movement of traffic, which was one of
24 the tests I mentioned earlier, and in order to maintain
25 the revenue, the maximum would have to be raised.

26 Q. Yes. Now, Dr. Roberts and Dr. Williams
27 were going to have this maximum test of reasonbleness,
28 maximum rate level, applicable to all traffic whether
29 it was moving under any type of rate -- agreed charge,
30 competitive rates, normal rates, class rates -- the



1
2 whole thing?

3 A. Yes.

4 Q. And I should make clear that they made
5 very clear that no rate would be at less than the
6 theoretical cost and something in addition; in other
7 words, in their contemplation there would be no rates
8 such as the statutory grain rates in western Canada
9 today?

10 A. Yes. Well, as to the application of
11 this fixed maximum, as calculated by Dr. Roberts, or
12 as illustrated by him, applying that to competitive
13 rates or agreed charges could in many instances result
14 in lower rates being charged than the competition re-
15 quires, thus reducing the revenue contribution without
16 improving traffic volume.

17 Q. Well, now, Dr. Roberts of course said
18 in his view it would improve traffic volume: this
19 was a key to his whole presentation -- that is, that
20 under his proposal the result would be to improve
21 traffic volume. Now, I would like to ask you to deal
22 specifically with that?

23 A. Well, I think Dr. Roberts' thought in
24 that respect was that by reducing rates down -- those
25 that now are above the ceiling he suggested -- addi-
26 tional traffic would develop.

27 Q. Yes?

28 A. Now, certainly there may be some -- I
29 surely would not say there would not be any -- but I
30 don't think it would be significant in volume --



1
2 certainly not significant enough to compensate for
3 the revenue contribution that would be lost.

4 Q. And in your view would it be necessary
5 to make substantial increases in low rated long haul
6 traffic as a result of the loss of contribution from
7 these higher rated traffics?

8 A. It may have to be either that or the
9 entire ceiling would have to be raised -- the entire
10 maximum.

11 Q. Yes?

12 A. One or the other.

13 Q. Why are you so sure that the volume
14 increase would not be really of great significance,
15 and is there anything, in your view, in this country
16 that would make it substantially different than what
17 would apply in the United States?

18 A. Yes, of course, there is -- we have the
19 right to make agreed charges in this country, and so
20 far as I know that has not been done in the United
21 States, although it is under test now, I believe. The
22 fact remains we can and do make agreed charges, and
23 many of them are made for 100 per cent of the shipper's
24 traffic.

25 Q. Yes?

26 A. Now, if you are getting 100 per cent,
27 you can't get any more, so a reduction in rates won't
28 give you any more traffic.

29 Q. Unless, I suggest to you, by a lower
30 rate you would expand the demand for that product?



1
2 A. Well, that may well be, but of course
3 then you are depending on the individual products and
4 whether a lower rate expands the demand for products
5 is questionable. It may be so in some cases, but not
6 in others.

7 Q. And taking beer as an example, you
8 would have to assume that any reduction in transporta-
9 tion charges -- and correct me if I am wrong -- would
10 immediately be passed on to the consumer?

11 A. I don't know. I am sure I don't know
12 what the breweries may do. I don't know it would make
13 much difference to the consumption.

14 COMMISSIONER ANSCOMB: I would like to know
15 on what assumption you arrived at that, Mr. Sinclair?

16 MR. SINCLAIR: Q. It is a market hypothesis
17 that would have to be tested?

18 A. I don't think it would change the con-
19 sumption materially.

20 COMMISSIONER ANSCOMB: The provincial
21 liquor boards may have something to say about it.

22 MR. SINCLAIR: Q. But it would be a factor
23 in the market analysis which would have to be taken
24 into account?

25 A. Yes.

26 Q. And, as Mr. Commissioner Anscomb
27 pointed out, you would have to gauge the reaction of
28 the provincial liquor boards to given circumstances?

29 A. Yes.

30 COMMISSIONER ANSCOMB: You wouldn't have to



1
2 gauge anything. They would not reduce it.

3 MR. SINCLAIR: Q. Having dealt with that,
4 is there any other point on this matter you would like
5 to draw to the attention of the Commission?

6 A. Simply this: I think I have considered
7 the various points as to the changing in the rate levels
8 and it does strike me that the reduction in the
9 railways' net revenue resulting from the loss in the
10 revenue contribution from traffic that could move freely
11 at rates higher than the fixed maximum, and the con-
12 sequent necessity of increasing that maximum to make
13 up for it, or increasing some rates, in any case,
14 would eventually result, I think, in the maximum rates
15 being pretty much back as they are today. But in
16 the meantime railway revenues would have suffered,
17 rate relationships would most certainly have been
18 changed, and I think the general stability of the rate
19 structure would have been disturbed.

20 Q. Dr. Roberts, of course, laid great
21 emphasis on the fact that an integral part of his
22 proposal would be that there would be a strong, as he
23 put it, economic advice given to the regulatory tribunal
24 and strong costing: now, "strong economic advice" would
25 include market analysis, whether the economic advice
26 was strong or was just economic advice. Have you
27 had any experience with market analysis in relation
28 to freight rate making?

29 A. Oh, yes.

30 Q. What has been your experience?



1
2 A. Well, of course, we have always
3 practised market analysis in a specific sort of way
4 in that we keep a record of our various shippers'
5 traffic, and if we find any serious or sudden changes
6 in it we certainly hurry around and find out what the
7 trouble is. But we are also working on more general
8 types of market analysis -- both Canadian railways
9 have done quite a bit in that direction, and they have
10 got a lot more in mind. It is a pretty big field,
11 of course, but they are engaging people who are
12 experienced in market analysis, and made studies in
13 that direction, and with the use of more advanced
14 techniques in developing statistical information we
15 hope to make real progress in this regard.

16 We are using now the so-called 705 machine
17 for integrated data processing.

18 Q. Yes?

19 A. And we hope by means of this to be able
20 to get a complete pattern, a complete rundown of
21 all of our traffic over a whole area which will give
22 us the movement of every commodity from every shipper
23 to every consignee between every station -- the tons,
24 revenue, the rate at which it moves. Against that
25 we will have to, of course, develop what the market
26 area is.

27 Q. Do you mean by that, market potential
28 for given commodities?

29 A. That is right.

30 Q. Mr. Edsforth, on that have you or



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Edsforth, dir
(Sinclair)

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1
2 have you not done some work in gauging market potential
3 in cooperation with industry and shippers?

4 A. Yes, we have done some work.

5 Q. What has been your experience? Has it
6 resulted in precise information, or what has been the
7 experience?

8 A. It is pretty hard to get precise infor-
9 mation on that, I think. After all, you can't always
10 tell what the reaction is going to be to any given
11 change in anything, and change in freight rates some-
12 times has to be tested by results; that is to say, you
13 don't really know what is going to happen until after
14 you put a rate in. All you can do in market analysis
15 is determine or estimate as best and as nearly as you
16 can what the result may likely be.

17 Q. Have you made estimates and had any
18 experience of making estimates?

19 A. Well, in dealing with estimates, yes, I
20 have made quite a few in my time.

21 Q. Have you ever been far out?

22 A. Yes, indeed, I have been far out; and
23 sometimes I have been close too.

24
25 ---Short recess.
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2 THE CHAIRMAN: Order, please.

3 MR. SINCLAIR: Q. Is there anything more
4 you would like to draw to the attention of this
5 Commission before I move to the next submission of
6 Alberta?

7 A. No, I do not think so, except that I
8 do say that you have to examine these things in a
9 practical sort of a way; look at them from the practical
10 results as you can envisage them that are likely to
11 follow.

12 Q. What do you mean? That is the phrase
13 you use quite often, Mr. Edsforth. "You must look
14 at things in a practical way". And another phrase
15 that we have heard many times from people like yourself
16 is that the freight rate structure must be practical.
17 Now, what do you mean?

18 A. Well, by that I mean it has to be
19 realistic, and something that will work and work
20 properly. And looking at it in a practical way, it
21 means you have to look not just at an overall picture
22 or average picture; you have to look at individual
23 things.

24 Q. A definition of "practical" is the
25 fact of doing, not speculative or theoretical. Would
26 that be what you had in mind?

27 A. I think that pretty well fits what I
28 had in mind.

29 Q. I find that definition in the
30 dictionaries, Mr. Chairman and members of the



Commission.

MR. MAURO: The C.P.R. dictionary?

MR. SINCLAIR: The C.P.R., of course, have got to be capable of reading dictionaries and applying them, too.

I am quite sure that economists read them, too, but sometimes we may have different views as to how they apply.

Q. Now, I want to turn to the memorandum and evidence submitted by Alberta and entitled "Cost Based Increase Formula", and it was spoken to by Dr. Little who was presented to this Commission by my friend, Mr. Frawley. And in volume 104, volume 105, Dr. Little presented his views on the cost based rate increase formula.

Now, you have read that evidence?

A. Yes, I have.

Q. In a few words, would you tell the Commission what you think that formula is?

A. Well, as I understand Dr. Little's proposal, the formula purports to be an attempt to relate a general freight rate increase separately as to the increase in terminal cost as distinct from the increase in the line haul cost.

In working out the formula, Dr. Little takes an assumed terminal cost of 62¢ per 100 pounds; an assumed increase in the terminal cost of 10%; and an increase on the line haul cost, assumed, again, of 5%.



1 He then takes the class 100 rate in the
2
3 uniform class rate scale for each mileage block. And
4 after deducting a fixed amount of 62¢ per 100 pounds,
5 representing the terminal cost in all cases, obtains
6 a balance of a class 100 rate basis to represent the
7 line haul costs. Separate increases of 10% on the
8 same terminal costs, and 5% on the line haul costs are
9 then applied, and the resulting amount is added to the
10 class 100 rate in each case. A percentage of increase
11 is then determined by dividing the former class 100 rate
12 into the new class 100 rate, as determined in the
13 foregoing method, and that percentage is, then, to be
14 applied to all rates.

15 Q. There are two points out of that that
16 I would like you to draw to the attention of the
17 Commission, sir, your views on. First, as you have
18 said, Dr. Little took a factor for terminals and
19 applied it uniformly throughout the scale?

20 A. Yes, that is right.

21 Q. Now, that is regardless of distance?

22 A. Yes.

23 Q. Now, do you think that that is a
24 realistic way of approaching terminal costs, if you
25 are going to try to look at them in a scale?

26 A. Well, no, I do not, unless the line
27 haul costs include the intermediate terminal costs,
28 because in most traffic movements you have traffic
29 costs at the origin and at the destination; and, then,
30 at intermediate terminals on the route of movement,



1
2 additional terminal costs are incurred.

3 Q. And do terminal costs, or do they not
4 -- are they constant with respect to the type of
5 shipment? For instance, newsprint paper, on the one
6 hand, and livestock, on the other. Would you expect
7 in handling those commodities over the same distances;
8 would you expect any difference in the terminal cost?

9 A. You mean the terminal cost per unit of
10 movement per 100 pounds?

11 Q. Yes ?

12 A. There would be a difference in the
13 terminal costs, I am quite certain.

14 Q. Would you expect them to be marked?

15 A. Yes, depending on the difference in
16 the weight loaded in the car.

17 MR. FRAWLEY: You do not have to feed and
18 water the newsprint.

19 MR. SINCLAIR: I thank Mr. Frawley for
20 pointing that out, and drawing to the attention of
21 the Commission that point, and that is that newsprint
22 does not have to be taken in out of the car, and this
23 would involve additional switching in intermediate
24 terminals?

25 THE WITNESS: At intermediate terminals, yes.

26 Q. And maybe Mr. Frawley would also like
27 the Commission to know that it is not the practice
28 of the Canadian Pacific, for instance, even where there
29 is a hump, to hump livestock and that might require
30 flat switching in one commodity which is not required



1
2 in respect of another commodity.

3 A. Depending on whether or not you had
4 a hump yard where you were doing the work, that is
5 right.

6 Q. Would all these factors, in your
7 opinion, have some reflection on terminal costs, by
8 commodity and by rate?

9 A. They certainly should, and I think
10 they would.

11 Q. Now, would you please go on and deal
12 further with this proposal?

13 A. Well, it seems to me that in order
14 to determine a proper formula, the amount allocated
15 for terminal services should increase in relation to
16 the distance the traffic moves, and not remain a
17 fixed amount, as shown in Dr. Little's calculation.

18 This, of course, would alter the graduation
19 of the percentage increase, if it can be assumed, as
20 Dr. Little did, that the terminal costs had increased
21 10%, and the line haul costs, 5%.

22 Q. You will recall Dr. Gobeil's question
23 to Dr. Little in which he drew to his attention on
24 his scales that there was, in effect, some unusual
25 situations that could develop?

26 A. Yes, a flattening out of the rates
27 on the longer hauls in the large block entries.

28 Q. In view of the terminal costs, if you
29 assume, as Dr. Little and some of the other witnesses
30 before this Commission have assumed, from certain



1
2 averaging statistical data from the United States,
3 the terminal costs varied two to one as against
4 line haul cost, could you or could you not envisage
5 long haul traffic giving weight in intermediate
6 terminal taking a higher increase than they would
7 under the present precentage increase method?

8 A. That might happen; that might happen.
9 It would all depend on the incidence of the cost.

10 Q. Including the intermediate terminals?

11 A. Oh, yes.

12 Q. On page 17465, Dr. Little referred to
13 two things that he said may be accomplished by any
14 kind of a new proposal. And, now, the second was --
15 we had dealt with the first -- the second was:

16 "2. Be capable of applying the computed
17 overall percentage increase in rates for
18 varying distances to existing tariffs,
19 thereby eliminating the need of changing
20 existing tariffs each time a change in rates
21 is required."

22 I think he went so far as to say the changes
23 under his method could be done with a one tariff
24 sheet; that is, as he outlined it in part of his
25 submission, it looked to be a rather simple document?

26 A. Yes.

27 Q. What would you say as to that? Could
28 you do it, or do you agree with him, or disagree with
29 him?

30 A. Well, not on the basis he showed. I



1
2 cannot quite see how you could possibly do it,
3 because Dr. Little had, I think, incorporated in
4 his submission table 4. I think it appears in the
5 transcript, on page 17504.

6 Q. Page 17504?

7 A. Yes, page 17504. And in that table,
8 it showed the mileage blocks, the class 100 rates,
9 and the amount of increase in each case; the
10 percentage of increase ranging from 10% in the first
11 block right down to 5% at the end of the scale.

12 Q. Yes?

13 A. Now, each percentage is related to
14 a mileage; and, for instance, the table shows that
15 for a class 100 rate of \$1.35, the increase would be
16 7% but that would not mean that all rates of \$1.34
17 would get a 7% increase, for the increase is really
18 related to the mileage block. In this case, it was
19 the 100 mile block, and so I would understand that
20 the 7% increase would apply to all shipments from 100
21 miles, no matter what the actual rate might be for
22 that distance -- whether it was \$1.34 or 25¢, or
23 whatever it might be.

24 So, in order to determine what increase to
25 apply to any given rate, the shipper or the agent who
26 was billing the shipment would have to know the
27 distance the traffic was going to move. That is,
28 whether it was going to move 150 miles or 269 miles,
29 or whatever it might be. Otherwise, you would not
30 know what percentage increase to apply. The rate level



1
2 would not tell you because, as I say, the rates
3 vary depending on the commodity for the length of
4 haul involved.

5 Q. Yes?

6 A. So that it would be necessary each time
7 you wanted to put the increase on to calculate the
8 mileage.

9 Q. Is it a simple thing to estimate mileage
10 between two points?

11 A. Not in many, many cases. Now, in the
12 railway distance table, there are some places where
13 the mileage is shown point to point, but that does not
14 apply all through the piece because that would involve
15 a tremendously sized distance table, and to figure out
16 mileages between two points, frequently you have to
17 determine the lowest combination over a period of
18 different junction points. That is not an easy task,
19 believe me. It takes some time to do, and I just
20 cannot visualize an agent sitting down to do that
21 in order to figure out an increase he is going to
22 put on, or, a shipper either for that matter.

23 Q. Let us discuss not the junction points
24 as they now exist, but let us look at it with
25 Manitoba's proposal having been accepted into the
26 situation. Then, what would be the result?

27 A. I am afraid you would never get the
28 rate increase or, at least, very often you would not.
29 There may be all kinds of wrong rates being applied.

30 Q. Are there ever wrong rates applied now?



1
2 A. Oh, yes. Oh, yes, there are, even
3 with the tariffs the way we have them, but this would
4 certainly add to them, in my opinion.

5 Q. Does having wrong rates disturb people?

6 A. It certainly does. They do not like
7 it a bit. We do not like it, either. Sometimes the
8 rate is too low. We do not get the money we should
9 get.

10 Q. That makes work for the Law department?

11 A. Sometimes it does.

12 Q. Is that bad?

13 A. Well, no.

14 Q. Well now, just, for instance, let us
15 take an example from the Maritimes. Now, could you
16 take an example from the Maritimes? Could you assist
17 the Commission in this regard by taking an example?

18 A. I pointed out one problem there that
19 would pretty well make it a practical impossibility
20 to just use a simple little sheet that Dr. Little
21 suggested. Another is a complication brought about
22 by rate groups that was dealt with in your cross-
23 examination of Dr. Little in volume 105, page 17572,
24 where it is pointed out that because the rates from
25 Halifax, Nova Scotia, and Saint John, New Brunswick,
26 to Windsor, Ontario, are the same under the rate
27 grouping that applies in the Maritime territory, the
28 rate increase formula proposed by Dr. Little would
29 result in a lower rate from Halifax than from Saint
30 John, despite of the fact that the mileage from



1
2 Halifax is considerably longer. That is because,
3 under the distance formula of Dr. Little the percentage
4 increase would be less from Halifax than from Saint
5 John.

6 Q. Would this happen in other places, too?

7 A. It could happen in other places, and
8 probably would.

9 Q. And the result of these various problems
10 that you see, and if Dr. Little's cost based increased
11 formula was to be applied in the future, how would
12 you handle the tariff publications after the general
13 increase?

14 A. Frankly, I do not see any other way
15 to do it then to re-issue our tariffs and increase
16 each rate specifically, and that would be quite a job,
17 believe me. It would take a year or two to do, in
18 my opinion, to figure out all the mileages for each
19 rate.

20 Q. But once you had done it, you would
21 not have to do it again; would you?

22 A. You might have to, because the next
23 time you might have a different set of increases for
24 different groups. It would not always fall in the
25 same way.

26 Q. Dr. Little and I had a discussion about
27 how you would determine the yield from an increase.

28 Mr. Edsforth, have you had any experience
29 in determining yields and estimating yields in
30 general revenue applications?



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A. Yes, I have done them on one or two occasions.

Q. You have?

A. Yes.

Q. And it is in light of your practical experience in doing this that I want you to direct your attention to whether you think Dr. Little's appreciation of that situation as it is disclosed in the evidence; which you have read, I take it?

A. Yes, I have read it.

Q. Would you tell this Commission if Dr. Little's appreciation of this situation is correct in your view, and in the light of your experience?

A. Dr. Little's evidence, when you were questioning him on this point, at page 17579 of the transcript and following, seemed to be that there would be no problem at all in computing the yield from the rated increase; he believed that if you had correctly calculated the increased cost and applied it correctly under his formula, you would be bound to get the right revenue. Well, I just do not see how that could be.

Q. Why?

A. Because the increase is not related to the revenue you get from the traffic.

Q. Yes?

A. You see, Dr. Little works his increase out relating it to class 100 rate per 100 pound



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2 shipment, let us say, but you would have to know the
3 volume of traffic moving at class 100 and the volume
4 of traffic moving at every rate, and the revenue
5 it produced, so that when you apply that percentage
6 to it, how much additional revenue you were going to
7 get.

8 Q. Would you find it difficult, Mr.
9 Edsforth, to estimate and withstand the helpful
10 investigations by learned counsel that you have had
11 the opportunity of meeting before -- would you find it
12 difficult to handle how much traffic in dollars was
13 moving by mileage blocks?

14 A. Yes. The only way you could do it;
15 you would have to get the traffic volume for a year,
16 because they always put our estimates for a year
17 before the Board of Transport Commissioners when
18 applying for an increase. You would have to take
19 that for a year, and then break down that traffic
20 as to the revenue you got for each mileage block
21 where the percentage increase changed.

22 Q. Yes?

23 A. And to do that, the only way I could
24 see to do it would be to examine every waybill and
25 put the mileage on it, and then segregate the
26 different groups together and put each one into its
27 proper category.

28 Q. How would you estimate, in view of the
29 level that you are expecting for the next year, how
30 would you estimate it by blocks?



1
2 A. Well, of course, that is one of the
3 problems you would have. You would not know whether
4 the traffic pattern was going to remain the same or
5 not, and that would really create a problem. You
6 could very well get changes in length of haul that
7 would alter the thing considerably.
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2 Q. Well, do you have that problem to the
3 same degree in estimating?

4 A. Oh, yes, you do in some degree but it is
5 not the same kind of a problem when you work on a hori-
6 zontal percentage increase because there you have the
7 total of all the revenue that you expect to get on
8 that traffic and that is not related to any particular
9 length of haul or any particular distance. Now, there
10 may very well be swings in the traffic, various kinds
11 of traffic, some moving long and some moving short but
12 on the overall they may average out all right in which
13 case the straight percentage increase already presently
14 applied to all the revenue would give you a more accurate
15 result.

16 Q. Is there anything you would like to add?

17 A. Only this, that under the way Dr. Little
18 would compute the increase it is not related in any
19 way to the revenue you are getting from the traffic at
20 existing rates. It would be nothing more than sheer
21 coincidence if the percentage increase came out to give
22 you the additional money you needed. It is most
23 unlikely that it would -- I would be very surprised.

24 Q. Well, in the light of your experience in
25 general revenue cases and handling these specific matters,
26 what is your overall assessment of this formula?

27 A. Well, very frankly, I do not consider
28 the formula as it has been advanced would work out
29 at all. The practical problems of not only determining
30 the rate increase to give you the right money on



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2 calculating it and putting the increase in effect in
3 the tariff would really make it just about an impossible
4 situation as I see it.

5 Q. Now, Mr. Edsforth, these plans have
6 been put forward as an alternative to the horizontal
7 percentage increase method that you have supported from
8 that same box on other occasions?

9 A. That is right.

10 Q. Are you wedded to the horizontal percen-
11 tage increase method?

12 A. Not at all. I certainly have not got a
13 closed mind on it and if I could find a method that
14 would do a better job then I would want to adopt it,
15 but I have not seen any yet, and we have examined quite
16 a few, that would do a job as well as the straight per-
17 centage increase.

18 Q. Now, Mr. Chairman, I wish to ask this
19 witness to turn to another matter and that has to do
20 with the maritimes' submission to this Commission.
21 Now, as the Commission will recall from the maritime
22 group, which consisted of the Maritimes Transportation
23 Commission, Dosco, the Arcadia Sugar and Schafter
24 who appeared in the regional hearings, each of them
25 presented a proposal for an additional subsidy for
26 maritime shippers. I think I should say this to the
27 Commission that in so far as Mr. Alex Hills' proposal
28 is concerned and Mr. Schafter's proposal is concerned,
29 the result was a threshold principle and this I do not
30 think requires very much comment at this time because



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2 it is pretty well a matter of argument. However, the
3 Maritime Transportation Commission proposal and the
4 Dosco proposal were quite different in that regard, as
5 we see them, and I would ask this witness to first deal
6 with the Maritime Transportation Commission proposal
7 and the views he has as to this and, secondly, with that
8 of Dosco.

9 THE CHAIRMAN: Well, we will alert counsel
10 for the maritimes.

11 MR. SINCLAIR: They do not have to be
12 alerted, all you have to do is whisper.

13 MR. FRAWLEY: May I ask if the witness is
14 finished with his criticism of the Alberta briefs?

15 MR. SINCLAIR: Yes, unless he has something
16 to add.

17 THE WITNESS: I have nothing to add.

18 MR. SINCLAIR: Q. Then please turn to the
19 maritimes.

20 A. Well, I did not have an opportunity of
21 fully reviewing the Maritime Transportation Commission
22 brief but I have read part of the presentation that
23 was made to this Commission here. Looking at page 14435
24 of Volume 83 it appears that the Maritime Transportation
25 Commission recommends that subsidy should be provided
26 under the Maritimes Freight Rates Act in addition to
27 that already in effect which would provide assistance
28 by way of subvention for the difference in rates between
29 traffic moving from the maritimes to eastern territory
30 and traffic moving within eastern territory. This



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2 subvention is to be measured annually and the payment
3 of subventions to be made to the shippers direct or
4 to all types of for-hire carriers. Now, this sub-
5 vention will be determined by finding the average rates
6 on all traffic moving by rail within eastern territory,
7 that is in Ontario and Quebec, and the average of all
8 traffic moving by rail from the maritimes to
9 eastern Canada, the extent to which the maritimes to
10 the eastern average was higher than the eastern to
11 the eastern average measured as a percentage would
12 determine the amount of additional subsidy.

13 Q. Yes.

14 A. Now, of course, I am not in a position to
15 say whether this kind of assistance is needed or not but
16 if it is decided that the shippers in the maritime
17 provinces require assistance of the order mentioned,
18 it is my view that this should be paid directly to the
19 shippers who are able to demonstrate to the responsible
20 authorities their need for assistance. In other
21 words, it is the shipper who would need the assistance
22 and it should not be tied to transportation costs.

23 Q. Do you, from your knowledge of the move-
24 ments and so on of Canadian Pacific in and out of the
25 maritimes, know if the shippers are in a relatively even
26 position in regard to their affluence or lack of it?

27 A. I would not be prepared to say that, I
28 do not know what their situation would be. I would
29 not know. That is something, of course, that would
30 have to be determined. However, it seems to me that



1
2 there must be other factors besides transportation
3 which would develop a man's need or otherwise for
4 assistance. Under the plan advanced it seems to me
5 that one shipper might get more assistance than he
6 really needed and another might not get enough; it
7 would all depend on what the circumstances were.

8 Q. Is that or is that not a problem now
9 under the existing Maritime Freight Rates Act?

10 A. Well, I suppose it is a problem today,
11 too.

12 Q. Anything further?

13 A. Now, a return on the rate based on a
14 comparison of averages which involved many different
15 commodities would not necessarily help the individual
16 shipment of one commodity. One commodity might not get
17 the help it needed at all and I say this particularly
18 since the calculations would be based on the average of
19 rail rates between points in eastern Canada and would
20 not take into account traffic moving by water or truck
21 and, therefore, not included in the Board's Waybill
22 Study. Of course, the same would hold for the
23 average of rates from points in the maritimes to
24 eastern Canada.

25 Q. What do you mean by that? Do you mean
26 if you are going to look at a transportation subsidy
27 you must look at transportation costs in their entirety?

28 A. I would certainly think so because they
29 are all present. Just looking at part of it, the rail
30 transportation, does not give all the picture.



1
2 Q. Is there much of a water movement in-
3 volved between the maritimes and central Canada and
4 within central Canada?

5 A. Yes, there is a fair amount, but I could
6 not give you the extent of it.

7 Q. Trucks?

8 A. Oh, yes, trucks in both areas.

9 Q. Well, aside from that point what other
10 comment would you have as to the possible difficulties
11 that might arise? I think the Commission might be
12 interested in that, possibly the transportation subsidy
13 on behalf of maritime shippers is a convenient way to
14 give assistance to an area. What do you say as to
15 that?

16 A. Well, that may be all right, it may be a
17 convenient way but surely a better way is to find out
18 what the individual needs are rather than try to do it
19 on an overall or average basis. Surely it would not be
20 too inconvenient once that has been determined to make
21 the payment to the individual shipper.

22 Q. And do you find, Mr. Edsforth, that by
23 using transportation as a means of providing subsidy
24 to an area that there is or is not any tendency for
25 people to confuse the reasons for the subsidy?

26 MR. SMITH: Perhaps it would be well not to
27 lead, Mr. Sinclair.

28 MR. SINCLAIR: Q. Thank you, Mr. Smith.
29 Mr. Edsforth, have you had any experience of people
30 having misinterpreted subsidies applied to transportation



1
2 as to their purpose?

3 A. Well, of course, you very frequently
4 hear references made to various subsidies, the bridge
5 subsidy or others, as subsidies paid to the railways
6 while actually they are not paid to the railways at all,
7 the railways do not keep them, they give them to the
8 shipper in some form or other through the reduction
9 in freight rates.

10 Q. Is this matter of any concern to you?

11 A. I do not think it is correct at all, I
12 do not think the subsidies should be identified with
13 the person who is receiving the benefit.

14 Q. Now, Dosco had a somewhat different plan
15 and perhaps I could summarize it this way: a selective
16 method be applied in determining rates on steel pro-
17 duction from Sydney to Montreal and areas west thereof
18 on a key point basis?

19 A. Yes, the plan there apparently is that
20 rates on steel products from Sydney to Montreal would
21 be made the same as the rate on the same product from
22 Hamilton to Montreal. That would set the key. Then,
23 from the maritimes, from Sydney at least, to points
24 west of Montreal the new Montreal rate plus existing
25 differences over would set the rate. Of course,
26 any subsequent change in the Hamilton rate would then
27 be reflected in the rate from Sydney -- that is the
28 Hamilton and Montreal rate. Now, again, I do not
29 know to what extent assistance is needed by this par-
30 ticular firm. Maybe they have a very real need of



1
2 assistance but it would seem a rather dangerous precedent
3 would be set in calculating rates in this manner because
4 other competitive industries, not necessarily in the
5 maritimes and not necessarily in the iron and steel
6 business, but other products as well, might say they
7 had a case for a similar kind of treatment and if
8 carried to any lengths you would soon have a pretty
9 chaotic state in the freight rates. I imagine there
10 would be many industries that would like some assistance
11 such as is suggested here.

12 Q. In that regard, Mr. Edsforth, some
13 members of this Commission might remember a situation
14 that arose in the 21 per cent case arising out of a
15 manufacturer in British Columbia who picked a basis
16 of changing his rates. Do you recall the case I have
17 in mind?

18 A. Yes, I remember it although I was not
19 actively on it.

20 Q. Would you mind telling the Commission
21 what he wanted?

22 A. My recollection was this was a steel
23 producer, I think in British Columbia, who thought
24 his rate into Toronto should not be any different than
25 the rate from -- that the increase in his rate should
26 not be any more than the increase in the rate from
27 Hamilton to Toronto. I think that was the situation.

28 Q. And if a proposition could be made like
29 that could you see similar propositions being advanced
30 arising out of parity?



1
2 A. Yes, I think that very well could happen.
3 I see some dangers there already.

4 Q. Now, is there any further comment that
5 you feel that you would like to make on the maritime
6 subsidy proposals?

7 A. Well, only in relation to the one we have
8 just discussed. Again, I think if there is need for
9 assistance to this industry that it ought to be given
10 directly to the industry, not by trying to juggle the
11 freight rates around. That is about the only way I can
12 put it.

13 Q. Now, there is a subsidy proposal by
14 Saskatchewan that I will not ask you to deal with specifi-
15 cally but would your remarks on subsidies and your view
16 as to how they should be applied ---

17 A. I think the general position of subsidies
18 is pretty much the same, a subsidy should be given to
19 the person for whose benefit it is and not through some
20 other means.

21 Q. And would you make any exceptions to it
22 at all?

23 A. Well, only in the case where there is
24 no practical alternative and where, for economic reasons
25 a level of rates must be maintained, then I think it
26 may have to be done through the freight rates although
27 I still do not think it is a good idea. This, of course,
28 may be the only practical way.

29 COMMISSIONER BALCH: Mr. Sinclair, pardon me
30 for interrupting. Mr. Edsforth, I believe the trucking



1
2 industry is asking for something, the same thing, or
3 am I wrong on that, that the subsidy be paid to the
4 shippers?

5 MR. SINCLAIR: They had two propositions.
6 They took the view that if you were going to pay it
7 that it should be paid to all transportation media
8 and, indeed, the Maritime Transportation Commission
9 in their proposals advanced the suggestion that the
10 additional subsidy that they were proposing based on
11 the parity principle that has been talked about would
12 apply to trucks as well as to rail. Now, the trucks,
13 of course, had something to say about the bridge subsidy
14 and said that they should be allowed to have rates
15 applied, subsidies applied to their movements. With
16 regard to the rollback legislation they also objected
17 to that whereby the government funds were used to
18 roll back rail rates and not used to roll back truck
19 rates. That is my recollection of it. I have not
20 checked it and if I am wrong ---

21 COMMISSIONER BALCH: Where I am confused, I
22 had the idea it was supposed to be paid to the shipper
23 so the shipper could choose his mode of transportation.

24 MR. SINCLAIR: That is so, that is basic to
25 their position.

26 COMMISSIONER BALCH: Well, is that something
27 new that Mr. Edsforth is dealing with or is it different?

28 MR. SINCLAIR: Q. I would say Mr. Edsforth
29 is advocating if you need to subsidize any particular
30 industry unless there is some reason why it is not



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2 possible, because of numerous shippers or difficulty
3 of payment, that you should subsidize, if subsidy is
4 needed, directly. Then, the person will be a free
5 agent. If you are going to have subsidies and they
6 are for the benefit of the people then Mr. Edsforth's
7 position is not to use the freight rate structure as
8 an instrument. I think that is the way I would
9 summarize the position, is that right, Mr. Edsforth?

10 A. That is right.

11 MR. SINCLAIR: Thank you very much, Mr.
12 Edsforth. Under the arrangement made here Mr. Edsforth
13 will return after Mr. Emerson's evidence is completed.
14 I will now call Mr. Emerson.



R.A. EMERSON, called

DIRECT EXAMINATION BY MR. SINCLAIR:

Q. Mr. R.A. Emerson is the Vice-President of Canadian Pacific and his headquarters are at Montreal. I will read some of his background into the record and ask him if he agrees with it.

Mr. Emerson comes from Manitoba. His education was at Plum Coulee, Morden and the University of Manitoba. He then went to Yale University in the United States for some post-graduate work. He is a graduate engineer, and he joined the company as a rodman in the Kenora division of the company in 1928, and he had summer employment that year and for a number of other years while he was completing his education. In 1930 he was a transit man in Kenora, and in 1935 to 1939 he was a transit man in Vancouver, Revelstoke and Regina divisions of the company. He has been a road master of the Manitoba district for two years, 1939 to 1941, and he has been a division engineer for the company at Brandon, Manitoba and Moose Jaw, Saskatchewan. He was the assistant district engineer of the company from July, 1944, to March, 1946, at Vancouver. From 1948 to 1950 he was engineer of traffic for the company's system at headquarters, Montreal. In October, 1950, to September, 1951, he was assistant chief engineer of the company having assistant jurisdiction. From 1951 October until the spring of 1955 he was the chief



1
2 engineer of the Canadian Pacific system. From 1955
3 to September 1958 Mr. Emerson was Vice-President
4 operations and maintenance for the Canadian Pacific
5 system. In October, 1958, he was appointed a
6 director of the company and elected to Vice-President
7 and appointed to member of the executive committee of
8 the Canadian Pacific Railway Company, and he is still
9 that?

10 A. Yes.

11 Q. He has some technical qualifications:
12 Member of the Engineering Institute of Canada; member
13 of the American Railway Engineering Association, and
14 he is a member of the Corporation of Professional
15 Engineers of the Province of Quebec. He has been a
16 locating engineer in northern development in Ontario,
17 and he has been part of the teaching staff of the
18 University of Manitoba. He has been a witness in a
19 few proceedings before the Board of Transport
20 Commissioners. He has been a witness in conciliation
21 hearings in regard to wage issues. He has been a
22 witness before parliamentary committees in particular
23 relationship to the distribution of box cars for the
24 handling of a commodity that moves in substantial
25 volume in western Canada. He has appeared as a
26 witness on Royal Commissions in dealing with the
27 elimination of firemen from freight road diesels and
28 yard diesels. He has been a witness for Canadian
29 Pacific in cases involving demurrage and applying to
30 various important issues that have been brought up.



1
2 You were also a witness in the Bracken Royal
3 Commission?

4 A. Yes.

5 Q. And you have been a witness in
6 maintenance of way cases and various things like
7 that before the Board of Transport Commissioners?

8 A. Yes.

9 Q. And you have had the opportunity of
10 answering questions to learned counsel both here and
11 others besides, and have tried to explain them your
12 views and the operation of the company in issues that
13 were raised?

14 A. Yes, Mr. Sinclair.

15 Q. And you have had prepared and under your
16 direction a memorandum ~~entitled~~^{entitled}, "Submission of
17 Canadian Pacific to the Royal Commission on
18 Transportation in Canada: I - Economical and
19 Efficient Railway Transportation; II - Branch lines;
20 III - Passenger Train Service"?

21 A. Yes.

22 Q. And that has been distributed in
23 accordance with the direction of the Commission to
24 my friends and filed last September the 14th. Is
25 the text of this memorandum correct, and are the
26 opinions expressed therein opinions that you take
27 responsibility for, Mr. Emerson?

28 A. The answer to both of those questions
29 is "yes", Mr. Sinclair. I would like to make two
30 small corrections to the memorandum.



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2
3 Q. Yes.

4 A. At page 13, at the last line of the
5 second last full paragraph on the page, change the
6 figure "695" to "666".

7 Q. So as to read, "During the period
8 1947 to 1959 the average man hours worked by section
9 forces per mile of track decreased from 894 to 666?

10 A. That is correct.

11 Q. And there is one other?

12 A. Yes. Attached to the memorandum is
13 statement 906 ---

14 Q. Just before you do that, Mr. Emerson,
15 I think that if you are going to make a change on one
16 of the statements -- well, first, is there any other
17 change in the text?

18 A. No, it does not affect the text.

19 Q. Well then, attached to the memorandum
20 you have referred to are a number of tables. I would
21 like to have the memorandum taken into the record in
22 full with the change now made by Mr. Emerson.

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MEMORANDUM IN RESPECT OF:

- I ECONOMICAL AND EFFICIENT RAILWAY
TRANSPORTATION;
- II BRANCH LINES;
- III PASSENGER TRAIN SERVICE.

I - ECONOMICAL AND EFFICIENT RAILWAY TRANSPORTATION

Economical and efficient railway transportation is achieved through management making the best use of plant, labour and materials to meet the requirements of shippers at the lowest total cost. Throughout the post-war period the major task of Canadian Pacific has been to adapt its operations so as to minimize the impact of rising labour and material costs and to meet intensive competition from other transport agencies.

The product of railway operation is transportation service. The movement of goods in 1959 constituted 90% of all transportation on Canadian Pacific. Because the movement of freight comprises practically all of the goods movement, measurements denoting the performance of freight train operations are significant indicators of the efficiency of railway operation. To measure the improvement in performance the year 1947 has been adopted. The reason for the selection of 1947 was:

- (a) It was the first post-war year in which war-related traffic was not a major factor; and
- (b) Operations in 1947 were conducted almost entirely with steam locomotives. There were only 55 diesel units in service at the end of the year, and all of these were in yard service.

The measurement of freight train performance involves consideration of the weight and speed of trains and the amount of traffic carried per train.

Statement 900 shows for the years 1947 to 1959 the average weight of all freight trains operated on Canadian Pacific. This includes the weight of contents and the weight of cars, including the caboose. In other words, this is the average total weight of the train hauled by the locomotive. It will be seen from Statement 900 that by the end of 1959 this weight measured in gross tons had increased over 1947 by 32.6%, which means that substantially fewer trains were required for the production of a given volume of transportation service than in 1947.

The average speed of all freight trains operated on Canadian Pacific for the years 1947 to 1959 is shown in Statement 901. Average speed is obtained by dividing the number of miles operated by freight trains by the elapsed time taken between terminals. Average speed will consequently reflect all stops made en route for switching, picking up or setting out of cars, clearing other trains and for other purposes and is therefore considerably below actual running speeds. It will be seen from Statement 901 that average freight train speed on Canadian Pacific has increased by 24.7% since 1947. This higher speed gives quicker turn-around of equipment and therefore results in improved efficiency, because fewer locomotives and cars are required to move a given amount of freight. This increase in speed has also enabled the railway to better meet competition.

Average gross weight and average speed of freight trains combined provide the most comprehensive single indicator of freight train performance, namely gross ton-miles per freight train hour. This is the average number of tons of cars and contents moved one mile in one hour by freight

trains. From Statement 902 it will be seen that on Canadian Pacific this figure has increased 66.1% since 1947. This increase is largely attributable to dieselization. Such improvements as installation of modern signalling and improvements in siding and yard trackage have also been contributing factors.

A means of measuring the effect of improved equipment and methods is the comparison of gross ton-miles per employee-hour worked. Statement 903 shows this information for the years 1947 to 1959. Included in this calculation are the hours worked by employees engaged in all phases of railway operation. From this statement it will be seen that there has been an improvement of 27.3% since 1947.

In the post-war period the standard work week for railway employees has been reduced in many cases from 48 hours to 40 hours and in others, from 44 hours to 40 hours. In addition, there have been substantial improvements in paid vacations and paid statutory holidays. Notwithstanding these factors, there has been a reduction of 8.7% in the total number of railway employees in 1959 as compared with 1947. Even since 1954, when the 40 hour week was fully effective and the gross ton-miles were roughly comparable with 1959, the reduction in the total number of railway employees was 10%.

The effect on railway expenses of improvements in operating efficiency, as denoted by the foregoing, is portrayed in Statement 904. This statement compares the index of railway operating expenses per unit of work performed (1,000 gross ton-miles of transportation service) with the indexes of labour and material costs. From this statement it will be seen that, whereas the cost of labour has increased by 121% and that of material by 54% since 1947,

operating expenses per 1,000 gross ton-miles have been held to an increase of 56%.

In assessing the ability of the railway industry to adjust operations and plant to meet short term changes in volume and to adopt technological changes quickly, two important factors should be borne in mind. One is the fact that the railway industry is capital heavy, as stated by Mr. Crump when he appeared before the Commission in January last. The other is that the nature of railway transportation is such as to make it labour intensive.

An analysis of road maintenance, equipment maintenance, transportation and other railway operating expenses has been made for the years 1947 and 1959. For this purpose, provision for depreciation and deferred maintenance was excluded from the maintenance accounts. The 1947 figures were then restated to the basis of 1959 accounting, wage and material prices, and adjusted for traffic volume. A comparison of the restated 1947 figures and the actual 1959 figures reveals that 1959 expenses were less than they would have been at 1947 level of efficiency by the following amounts:

Road maintenance	\$ 11,200,000
Equipment maintenance	22,400,000
Transportation	64,700,000
Other operating	<u>2,700,000</u>
	<u>\$101,000,000</u>

This reduction in operating expenses was brought about primarily by capital expenditures amounting to \$909 million made in the period 1947 through 1959. Savings were also effected by the elimination of non-paying services and improved methods. However, this reduction in operating expenses was accompanied by an increase in depreciation charges and cost of money.

I think it would be appropriate to discuss now some of the major changes which have resulted in reduced expenses and improved service.

Dieselization

At the end of 1959 the investment in diesel units and related facilities amounted to \$222 million. The savings from diesel over steam operation, after deducting additional depreciation but making no allowance for additional cost of money for the year 1959, are estimated to be \$53 million. The major sources of economies resulting from dieselization are:

- reduction in maintenance costs;
- reduction in fuel costs;
- reduction in crew costs brought about through the operation of heavier trains; and
- improved availability for service.

In the calculation of the saving of \$53 million normal steam locomotive repair costs were used. In 1959 of course, because of the gradual elimination of steam locomotives, normal maintenance costs for this type of power were not incurred. I also wish to emphasize that the full maintenance costs for diesel power have not as yet been incurred because the diesel fleet has not moved through its full maintenance cycle.

Maintenance of diesels can be accomplished by replacement of component parts. The parts which are removed can then be repaired at major shops and the unit itself need not be moved to a major point for this work. The steam locomotive, on the other hand, required location of maintenance and servicing facilities at points which were approximately 100 to 125 miles apart. With dieselization, major maintenance work has been concentrated at four main

points on the system. With the provision of these maintenance shops, it has been possible to concentrate maintenance work and staffs. The result has been a substantial reduction in motive power repair expense.

A new type of wheel truing machine was designed so that wheels on diesel units could have their contour renewed without removing the wheels from the diesel. Canadian Pacific has installed two of these machines since 1953. By machining wheels in this manner, a much more economical and efficient operation is obtained and it reduces the time diesels are required to be out of service, resulting in improved utilization.

In 1953 an oil reclamation plant was completed at Montreal to reclaim diesel crankcase lubricating oil. Since that time over 938,500 gallons of oil have been reclaimed.

Substantial savings in fuel costs have been realized through the change-over from steam to diesel power. While diesel fuel costs more per B.T.U., it is burned much more efficiently, with the result that the overall fuel expense is significantly lower. Savings are also effected as a result of lower costs of storing and handling of liquid fuel.

To accommodate the longer trains which can be hauled by diesel power, it has been necessary to undertake an extensive program of lengthening and respacing sidings, relocation of signals and rearrangement of yard tracks. At the end of 1959 a total of 272 sidings had been constructed or extended and 93 sidings eliminated, the associated signals relocated where necessary, and trackage rearrangements to accommodate longer trains had been carried out at 26 yards.

Another advantage of the diesel is its high availability for service because of the comparative infrequency with which it requires inspection or maintenance. It is possible to use diesel power in various consecutive services around the clock. In yard switching service, three consecutive 8-hour shifts per day, 7 days per week, can be powered by one unit which is out of service for an average of only 8 hours per month for maintenance. In road service, diesel units are used in extended runs. For example, Canadian Pacific transcontinental freight trains are powered with diesel units which operate from eastern to western Canada and return. The effect is to reduce the number of units required and therefore minimize capital outlays. In 1947, Canadian Pacific had in service almost 1,800 locomotives (which included only 55 diesel yard switchers), but when complete dieselization is achieved it is expected approximately 1,060 diesel units will provide the same amount of transportation service.

Crew costs are reduced with diesel operation, as two or more diesel units are operated in multiple on Canadian Pacific with only one engine crew. Prior to dieselization, when additional steam locomotives were added to trains, it was necessary that an engineman and a fireman be also added to handle each locomotive.

Freight Equipment

Because of the high cost of freight equipment, it is essential that new cars purchased be as generally suitable for handling of all commodities as possible, in the interests of attaining high utilization and minimizing the number of cars required. With specialized cars, which must often be assigned to specific services, there are two major problems, namely, seasonal traffic movement and empty return movements.

During the year 1959 Canadian Pacific purchased 500 insulated box cars at a cost of \$6,700,000. The provision of insulated box cars that can be heated and used during the winter months when heated cars are at a premium has become increasingly important in order to attract and retain perishable traffic. A refrigerator car normally used for this type of service currently costs approximately \$22,000, whereas the insulated box car costs only \$13,000 and can be used for perishable foods as well as in regular service as an ordinary box car.

Two programs currently underway on Canadian Pacific are the application of steel wheels and nailable steel flooring to freight cars. Approximately 40% of the Canadian Pacific freight car inventory is now equipped with steel wheels. Economies are achieved because the life of a steel wheel is approximately three times that of a cast iron wheel.

There are about 28,000 box cars in our inventory that are considered as being suitable for the application of nailable steel floors. To date approximately 5,100 cars or 18% have been so equipped. The use of nailable steel flooring reduces maintenance costs incurred through breakage of wooden floors caused by the increasing use of mechanized loading equipment.

The application of roller bearings to freight cars in place of the present friction-type bearing has been carried out on our piggyback and heavy gondola cars and tests are being conducted on other types of freight equipment.

The application of automatic slack adjusters on the brake gear of freight cars to reduce terminal detention of freight trains is progressing and approximately 2,300 cars have been so equipped.

Passenger Equipment

The use of stainless steel in passenger cars purchased in the post-war period virtually eliminates the necessity for painting to prevent corrosion and maintain the appearance of the car. The use of plastic materials in interior decoration eliminates the need for interior painting and reduces the cost of maintaining a presentable and clean appearance. With the acquisition of these cars a system of preventive maintenance was established. This is a program whereby the inspection and maintenance of all important mechanical and electrical components on each car is carried out on a mileage basis, which makes it unnecessary to move the car to main shops for general over-haul every two to three years. This is a similar system to that used for diesel units. Most of these new passenger cars have now operated over one million miles without being removed from service for extensive repairs. Canadian Pacific was the first North American railway to apply preventive maintenance on a mileage basis to passenger cars.

In 1949 Canadian Pacific installed a mechanical car washing machine at Vancouver. Since that time, additions and improvements have been made to this machine and other machines have been installed at Toronto and Calgary. These installations have substantially reduced the amount of labour required for these operations.

In the period 1947-1959 the improvements in procedure and changes in equipment earlier referred to, together with reduced inventory, resulted in a reduction in the man hours worked for equipment maintenance. In this period there was a reduction of some 5% in gross ton-miles and after taking this factor into account, the improvement was over 20%.

Signals

In the period from 1947 to 1959, 1,531 track miles of automatic block signals and five new interlockings have been installed. In addition, 159 track miles of track equipped with automatic block signals have been converted to centralized traffic control, and 18 interlocking plants have been modernized to improve train operations and reduce maintenance. At the end of 1959 there were 3,420 road miles of signal territory on Canadian Pacific, comprising 288 miles of centralized traffic control and 3,132 miles of automatic block signals. In total there are 572 miles of road where train operation is by signal indication, dispensing with the use of train orders for the movement of trains.

This increase in signalled territory and improvement of existing signal systems is a factor in the 24.7% increase in average freight train speed from 15.8 miles per hour in 1947 to 19.7 miles per hour in 1959. It has also produced other economies through a decrease in the number of operators required.

Road Maintenance

During the post-war period, an extensive program has been undertaken to mechanize maintenance of way forces on Canadian Pacific. Many track maintenance functions which were once carried out entirely by hand methods, such as spike pulling or driving, tie adzing, rail handling, rail bolting, ballast removal, track raising or lining and ballast tamping are now undertaken largely with power-operated equipment.

Rail laying is now highly mechanized. A rail gang is equipped with a complement of some 48 machines comprising spike pullers, power wrenches, adzing machines,

rail layers and spike drivers. As a result of mechanization of rail laying operations, the labour cost per mile of rail laid has increased by only 2% from 1947 to 1959, notwithstanding wage increases of about 120% in the interim.

Ballasting is another operation which is now highly mechanized.

Formerly, when reballasting track, it was necessary to dig the old ballast out of the crib spaces between the ties by hand. After new ballast had been deposited, it was uniformly distributed by men with shovels. The track was then raised onto the new ballast by manual jacking. Tamping of the new ballast under the ties was performed by men using tamping picks or shovels. Relining of the track was carried out by men with lining bars and final trimming of the new ballast was done by men with shovels working with a small supply of ballast on a push car. These operations required the employment of some 150 men per gang.

Under the present method of ballasting on Canadian Pacific, old crib ballast is removed by an undertrack plow towed behind a locomotive. After new ballast has been deposited, it is distributed by a ballast regulating machine operated by one man. Track is raised onto the new ballast by an undertrack sled towed behind a locomotive. After additional ballast has been distributed to refill the tie cribs, the track is lifted and secured in final elevation by a power-operated jack tamper. The new ballast is tamped under the ties by a power-operated tamping machine. Track is relined by a power-operated track lining machine equipped with a line indicator. Final trimming of the new ballast is carried out by the ballast regulating machine used to distribute the new ballast. With these various items of equipment, reballasting is now carried out with gangs comprising 80 to 90 men each. This has resulted in a reduction of some 35%

from 1947 to 1959 in the average labour cost per mile of track ballasted, despite the fact that wages have more than doubled during this period.

Mechanization has also been introduced to surfacing and tie renewal operations. In 1958 newly-developed multi-purpose track maintenance machines were employed in two areas for out-of-face surfacing with a light lift and for renewing ties with section gang labour. Experience with these machines resulted in a 50% reduction in labour cost for surfacing and a 66% reduction for tie renewals as compared with manual labour.

Bridge and building forces have been mechanized through being equipped with an increasing number of power tools and equipment. There is a practical limitation, however, to the extent to which such forces can be mechanized due to the nature of their work. Many phases of railway maintenance, such as bridge, building, signal or other structural or electrical repairs; painting; rock scaling; renewing turnouts and diamond crossings; and track work generally entail relatively few repetitive functions. Accordingly, they do not lend themselves to mechanization as do rail laying, ballasting or other operations to which production-line techniques can be applied.

The use of highway vehicles to transport men, equipment and materials to and from the site of their work has been adopted in some places to avoid delays incurred in meeting or passing trains, track motor cars and other rail-mounted equipment when travelling by rail.

Since 1923, when treated ties were first employed in considerable quantity on the Canadian Pacific, their use has been extended to the point that 98.3% of ties in main tracks and 95.6% of all track ties are now treated. This practice is the major factor in a general decline in annual tie renewals from 136 per mile in 1947 to 70 per mile in 1959.

In 1951 a program was inaugurated of flame-

hardening the ends of new rails a short time after they are laid in track. Results to date indicate that this practice will defer the necessity of welding rail ends to eliminate joint batter by at least six years. On this premise, savings of some \$60,000 per year are anticipated.

Following the introduction of road diesel units on Canadian Pacific, it was found that excessive wear was experienced on wheels and rail on curves. Studies carried out during 1953 and 1954 indicated that the solution to this problem was the installation of rail lubricators on territories with heavy curvature. From 1954 to 1959 inclusive approximately 380 rail lubricators were installed. Installation of these lubricators has produced a marked increase in the life of wheels on diesels as well as in the life of rail on curves. A further saving has been effected through a reduction in wheel wear on cars.

Provision of mechanical equipment for track maintenance, use of treated ties to reduce annual tie renewals, installation of heavier rail sections, improvement of ballast and reorganization of work forces have all contributed to reduce substantially the man-hours worked by section forces. During the period 1947 to 1959 the average man-hours worked by section forces per mile of track decreased from 894 to 666.

Maintenance on a large number of timber bridges has been reduced or eliminated through their replacement in more permanent form, for example, by treated timber, steel, culvert and fill, or line diversion. In the post-war period, a number of low capacity bridges have been replaced or reinforced to permit the operation of heavier motive power and the elimination of speed restrictions.

The measures above referred to, taken to

improve the efficiency of road maintenance, are the major reasons for a reduction between 1947 and 1959 of 26.3% in the number of man-hours worked by way and structure employees.

Operating Personnel

The decision to seek removal of firemen from diesels in freight and yard service was arrived at after full consideration of all matters of safety and efficient railway operation. Canadian Pacific was the first major railway in North America to take this decision and carry it through to a final conclusion.

Most Canadians are aware of the lengthy and costly procedures that were necessary in arriving at a settlement of this issue. After full hearing by a Conciliation Board and a Royal Commission, it was established that firemen are not required on diesels in freight and yard service. An agreement was finally reached in May 1958 with the Brotherhood of Locomotive Firemen and Enginemen for the gradual removal of firemen from freight and yard service through retirement, promotion and resignation.

The ultimate saving through the removal of firemen was estimated during the Kellock Royal Commission proceedings to be in the order of \$11,000,000 annually. This estimate was based on the year 1956 and will increase to the extent that there are increases in traffic volume, wage rates and fringe benefits. However, in the first two years the savings have not been large; indeed, to date they are far short of the cost incurred by the Company in securing the favourable result of this issue.

Under the terms of the settlement with the Firemen's Union, all firemen with a seniority date prior to April 1, 1956, have the right to continue in their

employment as firemen. The reduction in the number of trains as the diesel program has progressed and the discontinuance of numerous passenger trains has deferred the realization of the savings that are involved.

The removal of firemen from freight and yard diesels was achieved in the face of considerable difficulties at the cost of protracted hearings and two serious strikes. The success of Canadian Pacific on the firemen's issue was due to the conviction and determination with which the Company's position was pursued. It is important to recognize these factors as it is an example of the problems faced by the railway industry in making changes in established labour practices.

The operation of diesels in freight and yard service without firemen on Canadian Pacific has been completely satisfactory from every standpoint. Operations have proceeded normally without adverse experience in regard to safety, mechanical performance, carrying out switching operations or any other aspect. The successful experience of Canadian Pacific has resulted in other railways adopting the principles that the Company established.

Canadian Pacific now has some 1,100 open stations on its System. The manning of these stations and the maintenance of the facilities are costly. The size of stations and the number of personnel employed of course vary within extreme limits. Stations are required for the operation of trains as well as for the handling of traffic. Changing operating procedures and changing traffic patterns have enabled the Company to reduce station personnel in a number of localities and to close a substantial number of stations.

I would like to say that some remarks which

were made to this Commission, such as those of Mr. Moffat, who appeared before you in Winnipeg, concerning station agents, I am sure arise from the fact that he has not had the advantage of spending as much time at stations as I have. I mention it specifically because it is an example of how easily people who have not the advantage of being close to the practical problems of the business, develop misconceptions because they cannot adequately weigh all the facts.

The work of station agents covers a number of areas. A special study made in 1959 of station expenses on the Prairie and Pacific Regions of Canadian Pacific shows the following distribution of station employees' time:

Carload	31.51%
L.C.L.	25.78%
Passenger	22.52%
Train operation	9.77%
Express	5.59%
Telegraph	<u>4.83%</u>
	100.00%

Operating management, in its continuing review of station requirements for the handling of business, assesses past, present and future requirements at the station involved. If it is decided that continuation of the station with an agent is not warranted or where the agent could be replaced by a caretaker, the facts are assembled and an application made to the Board of Transport Commissioners, whose approval for the closing of a station or the replacing of an agent by a caretaker is required.

Statement 905 attached shows for the years 1954 through 1959 and as proposed for 1960, the number of open stations on Canadian Pacific, the stations closed and the substitution of a caretaker for an agent. This statement also shows the number of applications made to the Board and

the success of these applications. While all were not granted, the number of applications dismissed is a small percentage of the total. The actions taken by the Company and approved by the Board in the period 1954-1960 will result in future annual savings in the order of \$875,000.

I can assure the Commission that the closing of stations, where justified, is pursued vigorously by Canadian Pacific, and the Board's field staff, as well as the Board itself, inquire into each application thoroughly. As would be expected, opposition from towns and communities is met. Undoubtedly an open station is a convenience and I know there is some pride in towns throughout the country in having an open station. As in many other instances we meet, people do not like to pay for the cost of a service, but are quick to suggest that the convenience to them should be the predominant factor and that someone else should bear the cost.

Safety

In 1945 Canadian Pacific embarked on an extensive safety program with the full cooperation of the labour organizations. Personnel were assigned to the task of educating employees in personal safety and emphasizing its importance to the individual employee and to the Company as a whole. This program has been vigorously pursued. Some indication of the progress made is illustrated as follows:

- (a) It will be noted from Statement 906 that the number of fatalities has been reduced from 48 in 1945 to 16 in 1959, and that the number of ranking injuries (more than three days lost time) has been reduced from 5,082 in 1945 to 1,074 in 1959. If the number of fatalities and ranking injuries on duty had continued at the

1945 rate, since that time there would have been 208 more fatalities and 39,522 more ranking injuries.

- (b) Over the same period the number of train accidents due to employee negligence was reduced from 197 to 41.

Canadian Pacific has four safety and rules instruction cars which are equipped for the showing of moving pictures relating to safety and visual instruction and has one of the largest safety film libraries in Canada. The Company publishes monthly its own safety publication "On Guard", which has a distribution of over 40,000. There are 900 employee safety committees in operation on the system.

Experience to date in the safety movement has been very satisfactory and it will continue to play an important part in the future efficiency of our operations.

Freight Loss and Damage Prevention

A separate loss and damage prevention organization was set up on Canadian Pacific in 1947 in an effort to reduce freight claim payments. Employee education has become an important part of this program. The manner in which loss and damage can occur while freight is being handled by the railway and the costly results of this loss and damage have been brought home to all employees concerned at special meetings and through use of films, posters and articles in Company publications.

In addition, Company officers have maintained close liaison with loss and damage problems on other railroads through the Association of American Railroads and have attended meetings and courses in connection with the improvement of packaging and car loading. Visits are continually made to industries in an endeavour to have packaging and

car loading improved and with the view to minimizing this form of expense to shippers and railways alike.

One effective means of tracing and curtailing loss and damage has been through the use of impact registers placed in freight cars, which record any overspeed impacts that occur in transit and the time at which they occurred. This enables Company officers to take corrective educational action with the employees concerned.

In spite of increasing values in the freight being handled and the demand for increased speed in handling, Canadian Pacific has been able to reduce the number of claims paid during the post-war period and also reduce the ratio of total claim payments to gross freight and switching revenue. The reduced claim payment ratio is shown on Statement 907.

Mechanization of Data Processing

Railway operations entail the collection and processing of a great deal of statistical data.

For example, it is necessary for efficient railway operation to maintain a record of every car moving on a train. In the past, this was done by the conductor listing all the cars on a train report, and information about loaded cars was obtained only in respect of main line movements by passing reports of car numbers which were manually prepared and sent to headquarters by wire from some of the principal terminals, such as Calgary, Winnipeg and Windsor.

In 1947, a plan was worked out for the mechanization of the train consist on the territory from Windsor, Ontario, through Toronto and Montreal to Farnham, Quebec. Under this system, the particulars of each car movement were punched on I.B.M. cards at yard offices. These cards were arranged in the sequence of the cars in

the train and printed as a train consist either by I.B.M. printer or by teletype, in which case cards were converted to paper tape. The train consist as well as the tapes were sent to the terminal ahead and to headquarters. At the next terminal, the information was used to prepare a new train consist without additional key-punching and at headquarters it was utilized in the car accounting system and for reference in tracing cars.

With the installation of the high-speed electronic computer in 1957, the first step in a completely integrated system of producing freight train and freight car data was taken. The mechanical recording of the train consist was extended from coast to coast, and the waybill was also mechanized by use of a typewriter producing a paper tape as a by-product. The waybill, which accompanies each movement of revenue freight, shows the weight of the shipment, the commodity, the car number, the origin station, the destination station, the name of the shipper, the name of the consignee and various other information. The data recorded on the waybill is used for customer billing and is also used for interline settlements which are based on the division of revenues between the railways involved.

Under the present system, the data on the car and the shipment is recorded once at or close to its original source. From this single mechanical recording, the transmission and processing is done in a unified or integrated flow to provide several departments of the Company with information appropriate to each level and particular purpose. The integrated system now produces advance lists of cars to arrive at terminals for use in planning switching, car accounting records, car tracing information, statistics of operating performance, freight revenue accounting, and interline settlements.

The benefits from the integrated system were the establishment of uniform procedures throughout the System, quick, precise and complete information for management, and a more efficient service to the shippers.

Terminal Operations

Over a period of years studies have been in progress looking to the improvement in the handling of freight cars within and through our large terminals.

It has been established that the unit cost of handling cars can be reduced consistent with desirable standards of service, through the introduction of improvements in the following areas:

- (a) The re-organization of lines of authority and responsibility;
- (b) The provision of modern equipment and facilities such as radio and teletype communication;
- (c) The adoption of new methods and procedures;
- (d) A training program to improve the effectiveness of supervisors; and
- (e) The establishment of production controls to measure the output of each crew and yard-master.

Operating research study teams are presently assigned to Vancouver, Winnipeg and Toronto. The Winnipeg team has been working in the terminal for over five years. From new techniques and improved methods adopted and being introduced, improved efficiencies and savings of over \$1,000,000 are indicated over the System's large terminals.

Loss than Carload Freight Traffic - Merchandise Services

Canadian Pacific, from its inception, has

provided both carload and LCL services to shippers. With the growth of motor carrier operations in the 1930s, LCL freight traffic, particularly on short hauls, became competitive. The railway met this competition by rate action and pick-up and delivery service which proved generally effective, particularly as the force of the competition became less intense with restrictions imposed on gasoline and tires during the war years. The operating and traffic officers of the railway recognized that changing inventory patterns of business and the labour intensity of this type of traffic, as well as its vulnerability to truck competition, required continuing close attention.

During the war years studies were instituted, which led to the inauguration of Canadian Pacific co-ordinated services. This resulted in applications being made to highway transport authorities for the operation of highway routes from set-out points. The highway routes were operated by the Canadian Pacific Express Company. In some cases cars of LCL were moved to set-out points such as London, Brandon, Lethbridge, Cranbrook, Penticton, Salmon Arm and truck routes radiating from these points were established. In some cases the set-out cars were moved on manifest freights and in other cases on passenger trains.

The result of this program was to improve the service, but it pointed up the very high labour intensity caused by multiple handling of this type of traffic. In some cases contracts with highway operators were entered into. The difficulty of securing highway routes in the face of determined opposition from highway operators led the Company, commencing in the late 1940s, to enter into a program of acquisition of highway franchises through purchase in Western Canada.

Island Freight Service Limited, operating on Vancouver Island, was purchased by Canadian Pacific in

October 1946. Its operations were extended to Vancouver in 1953. O.K. Valley Freight Lines Limited, with operations between Penticton-Kelowna-Vernon, Penticton-Osoyoos and Penticton-Princeton, was purchased by Canadian Pacific Transport Company, Limited in October 1947. This company's operations were subsequently extended to include service between Vancouver and the points mentioned.

In 1948 highway licences purchased by Canadian Pacific Transport Company, Limited permitted operations between Winnipeg-Brandon-Estevan-Weyburn-Regina; Brandon-Minnedosa-Russell and Regina-Shaunavon-East End. Canadian Pacific Transport's rights in Saskatchewan were extended in 1953 to permit operations on Highway No. 1 to Regina and thence to the Alberta boundary, serving Moose Jaw, Swift Current and Maple Creek and also north from Regina to Saskatoon. In April 1948 Dench of Canada Limited, with extensive operations in Alberta and interprovincial operations to British Columbia points and Regina, was acquired.

With improvements in technology in the motor carrier industry and improved and extended highways, competition from motor carriers was growing, with the trucks making a determined bid to capture the most lucrative traffic.

Commencing in the late 1940s and gaining impetus in the early 1950s, labour costs were rising rapidly and the labour intensity of LCL traffic was receiving attention from the Company's Operating and Traffic Departments. In 1952 an appraisal of the situation was made and this indicated that overall LCL traffic was compensatory, but there were problem areas, particularly in the short haul field. The appraisal indicated that Canadian Pacific's ability to handle traffic by rail and by highway could provide a first class service to shippers.

In 1953 it was decided that by providing

broader mixing privileges, LCL traffic could be encouraged to move in carload quantities and appropriate action was taken in this regard. At the same time it was recognized that closer liaison with pool car operators could result in an expansion by these companies in the consolidating of less than carload shipments into carload movements which would be handled by the railway. This close liaison was pursued vigorously and an extensive increase in pool car traffic has resulted.

Through the combined handling of express, LCL and truck traffic moving in many cases at the same rates and between the same localities, avenues were open in the reduction of costs. In the short haul field in particular, and on some movements over considerable distances, the flexibility of truck transport and the service and cost factors involved were such as to suggest a reorientation of the Company's methods of handling this type of traffic. An intensive study was instituted and it was determined that a concept of integrated handling of merchandise held promise. Before any move was made, however, in this direction, it appeared prudent to have an adequate highway transport base and accordingly the Company's investment in Smith Transport Limited was made in early 1958. This company holds licences permitting operations from Manitoba to the Maritime Provinces, thus linking up with the licences held by Canadian Pacific Transport in Western Canada.

The elimination of passenger trains has given further impetus to the all-inclusive merchandise concept of Canadian Pacific in view of the necessity of substituting highway services.

As a result of the studies regarding integration it was decided that British Columbia provided an appropriate area for a full-scale pilot operation. Accordingly in 1959

the first integrated merchandise service was instituted covering Vancouver and Vancouver Island. This area was extended in 1960 to include the Okanagan Valley and the Kootenay area of British Columbia.

The integrated operation includes the less than carload operations of the railway, the operations of Canadian Pacific Express Company, the freight operations of British Columbia Coast Steamship Service, the operations of Island Freight Service Limited and O.K. Valley Freight Lines Limited.

Centralized management and centralized operations for the handling of the traffic of these various organizations was instituted. A modern rail-truck merchandise terminal was erected at Vancouver at a capital cost of over \$800,000. This terminal contains the latest equipment for the handling of small lot traffic and includes an endless conveyor system. At this terminal one dispatching staff receives all calls for all types of traffic; one sales staff does all solicitation; one fleet of trucks makes all pick-ups and deliveries; one shed staff handles all traffic which is loaded into freight cars or trailers for furtherance to destination, where once again delivery is made by a single fleet of trucks; and one bill is rendered for all services performed. Similar procedures were instituted at other points in British Columbia where new terminals were constructed or existing facilities adapted.

As in any new operation, problems have been experienced. New methods of handling the paper work have had to be devised and these have included a multiple-type bill of lading. Personnel absorbed from rail or express or truck operations are learning new methods and mastering techniques. Training programs have been instituted to assist these employees.

I would not wish the Commission to think that we have solved all the problems arising from this major step, but I do think that substantial progress is being made. The fact that one salesman calls on a shipper and offers him a service whereby his traffic can be moved by rail, by truck or by ship has greatly simplified the shipper's transportation problems and has improved the handling of his traffic.

Meantime plans for the extension of merchandise services are under consideration. A planning team for merchandise services has been set up and an operational research team located in Vancouver to assist management in securing the full benefits from integration. The handling of merchandise traffic of all types on Canadian Pacific is in a period of transition.

In the Prairie Provinces, pending extension of the merchandise services into this territory, partial integration has been accomplished by the Express Company handling LCL freight for the Railway. Savings have been effected by the elimination of a number of waycars normally loaded with LCL freight at the principal points such as Winnipeg, Brandon, Regina, Moose Jaw and Swift Current. Reduction in shed handling costs has also resulted. This system, which was put into effect in June, is gradually being extended throughout the Prairies from the Lakehead to the Alberta-British Columbia border.

We are confident that through integrated merchandise services the Company has a concept that is sound. We are confident that many of the problems we are now faced with can be ironed out and we believe that short haul merchandise traffic can be made profitable.

To meet rising costs, Canadian Pacific has made substantial increases in LCL freight rates. With few

exceptions, these rates have been increased under each of the general revenue cases. In addition, individual rate action has been taken in some cases. For example, application to increase the minimum charge was made to the Board this summer. In Ontario and Quebec, the so-called "pick-up and delivery" tariffs applicable on LCL traffic are in the process of being entirely revised and put on a uniform basis. It is expected that the new tariffs covering this traffic will be filed with the Board in October next. In general, the new rates will result in increases over those now published.

The railway industry in North America has shown a growing awareness of the problem of LCL traffic. Canadian Pacific believes that it has anticipated this problem and has taken action to solve it. Canadian Pacific is fortunate, compared for instance to American railroads, in having a substantial movement of long haul merchandise traffic and rail and highway facilities that lend themselves to being combined so as to provide the most economical handling in any given situation. Close cost control and cost data will be developed and where rate action to make the traffic remunerative is required, this will be taken. There are still many problems which must be solved. Certainly Canadian Pacific does not believe that LCL traffic is loss traffic but is traffic which is subject to managerial control and profitable handling.

Before leaving this subject, I would like to mention piggyback. Eight years ago Canadian Pacific introduced all-rail piggyback for the movement of LCL traffic between Toronto and Montreal. More recently the use of trailers for the movement of express traffic in this area has also been a growing factor in the development of piggyback traffic. Commencing in 1957, Canadian Pacific extended piggyback service to motor common carriers. Canadian Pacific

is now the largest piggyback carrier in North America. Undoubtedly some railroads in the United States will grow more rapidly in this field than Canadian Pacific, but there is still room for a tremendous expansion of this type of traffic on Canadian Pacific, provided artificial restrictions to hamper the growth are not imposed. Some difficulties are appearing in this regard. Canadian Pacific wishes to cooperate fully with other transport media in making piggyback available. Canadian Pacific has shown that it is prepared to extend the advantages of piggyback service to common carrier truckers on reasonable terms. Discussions with private carriers are also in progress. Canadian Pacific finds some indications in provincial regulatory tribunals of a growing tendency to try to force common carrier highway truckers under the control of Provincial Boards to operate only over the highway.

Piggyback service provides undoubted advantages for the most efficient movement of certain types of goods. All forms of transport media and shippers should be able to have unrestricted use of piggyback service where this provides cost or service advantages, or both. Aside from the advantages to shippers and transport media, there is an advantage to the general public in relieving congestion on highways and to the economy as a whole by enabling the most efficient means of transporting goods to be utilized. Canadian Pacific is strongly opposed to regulatory restrictions of any type and sees no public need for this. Suggestions for the restrictive regulation of piggyback can only be an attempt by persons to restrict the efficient movement of commerce to their own advantage.

The integration of merchandise services operated under one management and the unrestricted use of

piggyback services will, I am confident, assist in bringing about the movement of traffic by the most economical means, resulting in the best allocation of transportation resources.

Changes in Managerial Control

The Operating Department of Canadian Pacific was reorganized in July 1959. Formerly 32 operating divisions reported through 8 district organizations to 3 regional headquarters. Under the new organization, the 8 districts are eliminated and one new region has been created. As a result, 31 divisions now report directly to the 4 regional headquarters, which are responsible to the System headquarters in Montreal.

The four regions are better balanced territorially and provide closer contact with local business and railway activities.

This reorganization was carried out without serious dislocation of personnel and, when all staff changes have been fully implemented, there will be a saving of over \$1 million per year.

Concurrently with changes in the Operating Department organization, changes were made in other departments, resulting in savings and improved efficiency. While the savings in these departments are not of the same magnitude, they are meaningful and are in excess of \$150,000 annually. Previously there were eight data centres where accounting and statistical information was gathered and processed. This was reduced to four. The Claims Department

of the Company was decentralized and the position of Manager of Claims and his head office organization were dispensed with. The various claims offices across the country now report to the regional law staffs of the Company.

Effective July 1960, a reorganization of the Freight Traffic Department was made. This resulted in setting up four regions for the Traffic Department, with regional freight traffic headquarters located at Vancouver, Winnipeg, Toronto and Montreal, that is, with the same regional jurisdiction as the Operating Department. The re-alignment of the Traffic Department was introduced to provide a more efficient traffic organization in the light of present traffic patterns and trends, and in particular, to provide more expeditious handling of freight rate information and the development of other information regarding traffic movements required by shippers.

Possibilities of achieving further efficiencies and economies on Canadian Pacific.

The examples of changes made in the various areas in the Company's activities in the post-war period are indicative of the efforts of management in the face of pressure of increasing costs and the demands for improved service from its patrons. Canadian Pacific is a very large organization and is spread over a considerable area. This in itself requires a special adaptation of managerial techniques. While I do not suggest that we have a perfect record in improvements in efficiency and in the securing of economies, I certainly believe that the Company's record is good. While we have constantly adopted an attitude of experimentation, we also have had to reject out of hand theoretical concepts advanced from time to time which do not give proper weight to maintaining a proper transportation system in a free economy or which are not based on a practical knowledge of problems which can only be learned from

experience in the business.

Transportation as an industry, and indeed Canadian Pacific as a railway, has its own peculiar characteristics. For this reason, it is our experience that it takes years for personnel to become familiar with the complex problems of the Company and to subsequently develop into useful members of the management organization. We are always endeavouring to take advantage of new scientific and technological developments but we are careful to test ideas on the ground and to listen attentively to the man with a background of experience in the maintenance and operation of our own railway.

Another point that has struck us very often is that the testing of ideas and the careful checking of the true impact of such ideas on efficiency and economics is best accomplished by including in the team that makes the final recommendation a person who has the responsibility of carrying them out.

Canadian Pacific has a number of matters in hand at all stages of development, some of which after further study may be abandoned. We have no doubt that our efficiency will improve. Canadian Pacific must and will improve the utilization of its plant and adjust its labour intensity, but this will not happen quickly. New methods and new techniques will be developed; existing methods and existing techniques will certainly be applied more effectively. If I could be assured that the inflationary pressures that have been such a problem would disappear, I am confident that our unit costs of transportation would be reduced, but, frankly, I do not look for these pressures to disappear. What I envisage is that in the next ten years, unit costs of transportation will increase, but not at the rate of the last ten years.

It seems to me that the Commission might be interested in some specific areas as to future efficiencies and economies and I will now deal with some of these.

Dieselization

I referred earlier to annual savings of \$53 million realized in 1959 as a result of dieselization. At the end of 1959 approximately 97% of our operations were dieselized and it is planned that dieselization will be completed by the end of this year. This does not mean withdrawal of all steam locomotives from service, as some will be retained in service as stand-by power to take care of peaking. We plan to centralize these locomotives in a restricted area. Accordingly, it may be several years before the last steam locomotive will disappear from Canadian Pacific. On Canadian Pacific we have been most careful not to over-purchase diesel power in light of the availability of steam power and the most economical operation.

The scope for achievement of further economies in transportation expenses from additional dieselization is extremely limited, except that savings due to the elimination of firemen will continue to increase until they are all removed from freight and yard service.

In anticipation of full dieselization, Canadian Pacific has undertaken a complete review of its maintenance practice for diesel locomotives. This study has indicated that with improved maintenance procedures at servicing and main shops and further consolidation of repair points, savings in diesel repair costs will be realized. However, as I mentioned earlier, we expect an increase in diesel

maintenance expenses because of the fact that the fleet has not gone through a full maintenance cycle. This increase has been estimated by our Mechanical officers at 10%.

Freight Equipment.

With research techniques now available and use of a high speed computer, it will be possible to make studies which will serve as a basis for planning a better distribution of freight car equipment. This should improve the utilization of freight equipment, thus reducing the number of units required in the inventory to move a given volume of traffic.

The use of the computer should also assist in determining the point at which the cost of repairs to freight cars and the cost of obsolescence outweigh the cost of purchasing and maintaining new cars. This requires analysis of the relationship between ownership costs, maintenance costs, and utilization. The establishment of this relationship is now the subject of an extensive study, the results of which are expected to provide the following benefits:

- (a) Lower maintenance costs on freight equipment;
- (b) Lower freight car inventory;
- (c) Greater suitability of cars for loading requirements.

Studies are also underway for the concentration of freight car repairs at centralized locations across the system. Basically this means that freight cars requiring light repairs are moved to a centralized location on a repair track where men, materials and tooling are concentrated in a small area, whereas under the present method of repairing cars, the work area is large and men are required to walk extended distances to the cars, transporting materials and tools. Essentially it is an application of the assembly-line concept to repair of freight cars.

Train Radio

A pilot installation of train radio in freight trains operating between Calgary and Vancouver and Lethbridge and Vancouver commenced operation in April 1960. This experiment will enable the Company's operating officers to measure more accurately the overall benefits which will accrue from this facility. It is known that this equipment will speed up airbrake tests and allow more prompt departure of freight trains from terminals. It will also reduce the number of emergency stops due to lack of communication between the head-end and tail-end of freight trains, and speed up over the road movement and the entering and leaving of sidings. Another attractive feature is the decrease in the time taken for switching at points where curvature is extensive or bad weather is a factor.

Extensive use of radio is now being made in larger terminals - Montreal, Toronto, Winnipeg and Vancouver - where continuous contact between the supervisors and yard crews is an important factor in the level of efficiency of the yard. Experimentation with "walkie-talkie" units for switching movements in terminals has also been undertaken. It is too early to assess the results of these tests. A further application of transistor equipment may overcome some problems.

Centralized Traffic Control

Benefits which may be derived from the installation of centralized traffic control include improved train operation through reduction of delays in meeting or passing trains, greater control over train movements and increased track capacity. Substantial operating and maintenance savings may also be realized through reductions in the number of train stops, fewer train delays, elimination of positions required for train order operation and, in some

cases, elimination of double track or avoidance of the necessity of constructing an additional track.

The determination as to whether the installation of centralized traffic control on a particular territory can be economically justified depends primarily on the train density and traffic pattern pertaining to that territory. Involved in these considerations are the number of trains operating at peak periods, the relative number of opposing and following movements and the confliction of high and low speed movements.

An objective of Canadian Pacific has been to equip all of its single track primary main line with signals in order to increase safety of operation. At the end of 1959, 83% of this objective had been realized; that is, out of a total of 3,455 miles of single track primary main line, 2,872 miles were equipped with signals. Of the mileage so equipped, 261 miles is comprised of centralized traffic control and the remaining 2,611 miles is comprised of other forms of automatic block signals. On a considerable portion of this latter territory, replacement of the existing signals by centralized traffic control cannot be economically justified under present train densities and traffic pattern.

Studies have been made to establish those territories on which installation of centralized traffic control would be economically attractive. This year a total of 110.8 miles is being installed at various locations across the System. 54.9 miles are being installed between Port Hope and Agincourt, Ontario, to complete a continuous section of 183.4 miles, which will permit operation of trains by signal indication, dispensing with train orders, for the entire distance between Montreal and Toronto. 45.1 miles are being installed between Ernfold and Swift Current, Saskatchewan, supplementing 63.4 miles installed between Moose Jaw and

Ernfold last year, which will permit operation of trains by signal indication and eliminate the second main track between Moose Jaw and Swift Current. Another 8.1 miles are being installed between Greely and Revelstoke, British Columbia, supplementing 23.1 miles installed west of Revelstoke last year, which will permit operation of trains by signal indication between Greely and Taft and eliminate the second main track between Revelstoke and Taft. The remaining 2.7 miles are being installed between Saskatoon and Sutherland, Saskatchewan, to expedite the movement of trains between these locations.

Our studies indicate that there are some additional 1,220 miles of main line on Canadian Pacific on which potential savings or improved operation could be realized by installation of centralized traffic control under present traffic patterns and train densities. Some of these installations would be to complete the signalling of our single track primary main line in order to expedite the movement of traffic and at the same time increase the safety of train operations. Some installations would be on signalled single track lines where growth of traffic has rendered the existing signal systems inadequate. Other installations on double track territory would produce savings through elimination of one of the main tracks and through improved train operation where signals do not presently exist.

Yard Facilities

Earlier I dealt with studies which had been conducted with a view to improving efficiency in existing terminals. Continuous studies are also being made by Canadian Pacific of the problem of congestion in yards. These studies determine whether it is more economic to improve the efficiency of the existing yard facilities or to construct new yards. An important factor which determines

whether existing yards should be continued in operation or new yards constructed is their location. The determination of proper locations for yards involves extensive studies of traffic and projections into the future. Areas where studies are continuing are Saint John, Toronto, Winnipeg and certain other points of less importance. Plans are under way to construct a new yard at Agincourt, east of Toronto. In the Saint John area, property has been acquired and some work done at Lancaster, N.B. Studies at other points are not sufficiently advanced to determine whether the existing facilities should be retained or new yards constructed. The reduction of cost of operation and the expeditious movement of traffic are constantly kept in mind in connection with our studies of yard operation. Construction of new yards involves large capital expenditures and management is fully conscious that such capital expenditures should not be made when there are possibilities of improvement through new techniques.

Road Maintenance

Investment in road property represents some 58% of the total rail investment of Canadian Pacific and the cost of maintaining this property runs into many millions of dollars each year; in 1959 it amounted to over \$87 million. Consequently this is one of the major areas in which Canadian Pacific is continually striving to reduce costs.

Mechanization of track maintenance and adoption of cyclical maintenance practices are two developments which offer possibilities for reducing road maintenance expense. Cyclical maintenance is a practice whereby tracks are lined and surfaced and tie renewals are carried out by territorial gangs at intervals of two or more years, rather than annually, and only spot maintenance is carried out in the interim as the necessity arises. This greatly reduces

the amount of work otherwise performed by section gangs, permitting a considerable reduction in the size of regularly assigned track maintenance forces.

Conditions in Canada are not as productive of savings from the mechanization of track maintenance forces and cyclical maintenance practices as in the more southerly parts of the continent. Due to the shorter working season, the carrying charges on mechanized equipment are almost double those in areas where such equipment can be used throughout the year. Severe frost conditions which prevail throughout most of Canada for several months of the year cause a considerable amount of disturbance to the track structure which must be corrected by shimming and more frequent lining and surfacing. It is for these reasons that Canadian Pacific has been selective in the adoption of mechanization.

Notwithstanding the deterrents to mechanization of track maintenance which exist in Canada, Canadian Pacific is actively engaged in experimenting with various modes of mechanized and cyclical track maintenance to determine the feasibility and economy of these practices under climatic, economic and geographic conditions which prevail on Canadian Pacific. Those practices which prove to be of merit will be extended to the utmost extent on the system in order to realize the maximum economy attainable from technological advances in maintenance of way equipment.

Real Estate

Canadian Pacific has a Real Estate Department, the function of which is to maximize the net revenues from outside use of available space in rail properties.

Our Real Estate Department has been active in this connection, the result being that a number of new leases

and concessions have been established in railway stations and other railway buildings. Projects of this nature are being developed with regular consistency and every opportunity that presents itself is thoroughly investigated.

Rentals are reviewed periodically to keep them in line with property values.

Future uses of Integrated Data Processing

Mechanization of data processing permits some reduction in the expense of producing the multitude of statistical documents required for the control of operations and provision of statistical information required by government agencies. With mechanization and integration of data processing procedures, data required for various purposes can all be obtained from the same source. As an example, the record of the movement of a freight train can be used for car tracing (shippers' information), car distribution (railway operation) and sales (Freight Traffic Department). Train records also are the basis of compilation of a multitude of statistics pertaining to operating efficiency and for reporting purposes to Board of Transport Commissioners and Dominion Bureau of Statistics.

Another aspect of integrated data processing is the speed at which data can be produced for executive, operating and traffic officers at all levels, enabling required action to be taken promptly.

The mechanical collection of operating data pertaining to train movements is rapid and comprehensive and permits establishment of daily measurements of the efficiency of performance which can be used to indicate to management those areas requiring attention. The objective is to eliminate from administrative procedures as much as possible the routine tasks in selecting data

which may be considered significant.

The availability of nighspeed computer equipment is opening a new era in railway management. Potential uses of such equipment makes it possible to perform analyses which because of the complexity of railway operations could never be performed manually hitherto. These advantages range from more precise cost determination through tighter allocation of equipment and through a better and more current control over items which are basic to revenues and expenses. As an example, Canadian Pacific is in the process of developing techniques of market research through use of the computer equipment. Market research in railway transport depends in large measure upon mass processing of traffic data.

Research

In 1945 Canadian Pacific established a Department of Research. This organization is available for and is continually engaged in the investigation of various transportation problems. The Department of Research is organized along functional lines with groups working in the fields of Methods and Standards, Transportation, Technical, Economic and Cost Research.

Methods and Standards Research is concerned with the development and adaptation of improved methods in transportation operation. To date the work has been done mainly in the larger terminals. The group is staffed with persons of academic background and with the operating personnel who have been brought into the Department from line departments of the railway in order to achieve a balance of experience.

Transportation Research is concerned with operating aspects in the consolidation of rail and truck for the movement of traffic and substitution of rail diesel

cars for conventional passenger trains. This group works in conjunction with other departments in the Company in improving the net revenues from passenger and LCL traffic. Personnel engaged in transportation research includes operations analysts with a broad knowledge of the railway.

Technical Research is concerned largely with the adaptation and development of new equipment and materials. This group has the responsibility of maintaining liaison with equipment manufacturers, with technical research groups and other railways, and with the National Research Council at Ottawa. The staff is made up of personnel with engineering training and experience in railway operation.

A specific example of research design in the new equipment field has been the work carried on by the Research Department of Canadian Pacific with General Motors in the development of a new type of car for handling piggy-back traffic. This program has been under way for approximately two years. Experimental cars have been manufactured and the latest types are now undergoing tests and further modifications. Practicability of the new design and the economics arising from it are still under analysis. The Technical Research section has also been actively working with Yale & Towne Manufacturing Company in the development of a side loader for piggyback traffic. Test models have been manufactured and evaluation of this type of equipment is in progress.

Canadian Pacific is also mindful of the advantages of containerization in certain areas. It has advantages where traffic requires or where the nature of the shipment warrants direct pick-up and delivery from the shipper to the consignee. However, use of containers has significant cost disadvantages where heavy loading traffic moving over long distances is involved, because of the low

ratio of contents to tare weight. There is high capital cost of the containers themselves and of the specialized equipment necessary for loading and unloading.

Economic and Cost Research is concerned with the applied economics of railway and other forms of transportation. This includes forecasting, market research, cost analysis and statistical analysis. The personnel in this group have both academic and practical backgrounds.

The purpose of the Department of Research is to provide technical advice on specific problems and to conduct studies into matters which involve more than one department. Its activities are also concerned with the development of new transportation technology which includes a certain amount of original work.

As the investigations of the Department of Research are concluded and where its findings so warrant, changes in operating methods are brought about as rapidly as they can be planned, financed and put into effect.

Canadian National - Canadian Pacific Act, 1933

Up to 1933 the cooperative measures between the two companies consisted of:

- (a) joint facility agreements
- (b) joint ownership of facilities

In 1933, following the report of the Duff Commission, the Canadian National - Canadian Pacific Act was enacted. The reasons that the Duff Commission recommended such an Act were stated to be:

1. Over-development of railways beyond the immediate needs of the country;
2. Aggressive and uncontrolled competition between the railways;

3. The trade depression which had lowered Canadian Pacific Railway gross ton-miles from 54 billion in 1928 to 31 billion in 1933.

The Canadian National - Canadian Pacific Act was predicated on the maintenance of competition between the two railways. Sincere efforts were made by both railways to apply the principles of the Act to all branches of their undertakings to which it was capable of application with advantage and numerous cooperative measures were agreed upon. These are set forth in detail in the report of the Turgeon Royal Commission on Transportation commencing at page 224.

In the post-war period the extent to which savings could be effected by cooperative measures under the Act became very limited. This was due to the marked increase in traffic moved by the railways during and after the war years. In 1933, Canadian Pacific gross ton-miles totalled 31 billion and in 1958 totalled 70 billion. During this time the population of Canada has increased from 10,663,000 in 1933 to 17,048,000 in 1958.

Since 1933 there has been no significant increase in the miles of road operated by Canadian Pacific which was 17,087 miles at the end of 1933 and 17,095 miles at the end of 1959.

Since 1950 there have been no projects completed under the terms of the Canadian National - Canadian Pacific Act. To say that no projects have been completed under the terms of the Act is not, however, to say that no progress has been made toward the achievement of economies through cooperative measures.

Since 1950, the following joint switching or trackage agreements have been established:

Atlantic Region at Saint John, N.B.

Eastern Region at Oshawa
 Etobicoke
 New Toronto
 Port Credit
 Chatham
 Walkerville Junction
 Oakville
 Bronte

Prairie Region at East Winnipeg
 St. Boniface
 Portage la Prairie

Pacific Region at Alix-Nevis
 East Edmonton
 Clover Bar
 Edmonton
 Lambton Park
 Camrose
 Calgary

Over the past seven years a joint committee of the Car Departments of the two railways has set up joint specifications for nine separate types of railway cars including box, auto, flat and various types of hopper and gondola cars.

In the communications field, joint micro-wave systems, telex networks, facsimile systems and jointly operated branch offices have been established.

Extension of passenger train pooling arrangements have been considered by the two railways from time to time since 1950. Currently a joint committee is studying passenger service southwest of Toronto and this committee will then deal with other passenger services. A program of discontinuing passenger trains on one railway and leaving service to the other where it is the dominant carrier and has a possibility of becoming an economic rail carrier of passengers between jointly served cities, has been under active study. For example, Canadian National is the dominant passenger carrier between Winnipeg-Saskatoon-Edmonton. Canadian Pacific discontinued passenger train operation between these points.

Canadian National and Canadian Pacific conduct joint studies as to the possible elimination of uneconomic branch lines in circumstances where one railway has or has a possibility of having an economic branch line serving the same general area. The first step in this program was taken last year and the cases have been presented to the Board of Transport Commissioners and are awaiting judgment. In this way, the application of the dominant theory of passenger train service is applied to freight traffic and still enables the railways to compete economically and provide the benefits of rail competitive service to the shipping public.

Significant changes in the transportation scene have taken place since 1933. The situation which the Canadian National - Canadian Pacific Act was passed to alleviate no longer exists. The sudden advent of the depression of the 1930s meant that there was a temporary over-capacity of rail lines. The tremendous growth in the economy has eliminated this over-capacity and Canada has since grown into any over-capacity that existed in the depression years.

II - BRANCH LINES

Canadian Pacific is comprised of main lines and a complementary network of branch lines. The main line, which was built under the charter of 1881, extended from Callander, Ontario, near North Bay, to Port Moody, British Columbia. As it was quite apparent that a railway comprised only of a main line across the continent could not support itself, the contract also provided for the construction of branch lines from any point on the main line to any point within Canada.

Concurrently with the construction of the main line to the West Coast, the main line was extended eastward from Callander through Ottawa to Montreal. In Eastern Canada the railway was gradually expanded into the economy of that area principally through the leasing or acquisition of lines. For example, in 1884, Canadian Pacific made a perpetual lease with the Ontario and Quebec Railway Company which itself was an amalgamation of two railway companies. The lines of this railway extended from Montreal to Toronto and from there to London, Chatham and Windsor, with subsidiary lines extending northwesterly towards Lake Huron. In the same way, in 1886 Canadian Pacific acquired by lease the Atlantic & North-West Railway Company and other companies, which extended the line to Saint John. A line was also acquired giving access to Quebec City.

It was early realized that it was necessary to make connection with the American railroad system to the south and connections for this purpose were established in Eastern Canada.

In Western Canada the expansion of the railway system was of necessity different from its expansion in Eastern Canada. At the time the Canadian Pacific main line

reached Winnipeg, there was only one other line in the entire west, namely, the branch line from Winnipeg to Emerson, which made connection with the American railroad system at that point. West of Winnipeg, the country was virtually undeveloped. In these circumstances it was imperative that the railway be extended in advance of settlement in order to make the development possible. With the completion of the main line and development along it, the Western economy began to expand. Canadian Pacific undoubtedly assisted this development with its railway construction policy.

The Canadian Pacific railway system has been developed in accordance with sound business principles. The main line provides the short line route from the Maritimes to Central Canada; from Central Canada to the Lakehead; and from the Lakehead to the Pacific Coast and links the principal centres of economic activity in the most direct manner. The network of branch lines as well as serving the smaller communities, develops traffic for the main line. The Canadian Pacific system does not reflect excess mileage constructed because of any national policy considerations of the past or present.

The policy of development and expansion of railway mileage which I have described drew to a close in the early 1930s. The mileage operated by Canadian Pacific today is about the same as that operated in 1933.

I am concerned with the possible impression which may have been created with respect to construction of Canadian Pacific branch lines in the 1920s by some language contained in the Duff Royal Commission report. This Commission was established in November 1931 and made its report in 1932.

In the 1920s Canada experienced a period of

rapid growth, high economic activity and substantial optimism prevailed as to the future. It will be recalled that this was the period of substantial immigration which flowed into Canada immediately after the end of World War I. Some indication of the expansion in the Western economy which occurred in this period can be judged by the fact that acreage sown to grain in the Provinces of Alberta and Saskatchewan alone rose from 23,058,364 in 1918 to 32,666,000 in 1930. The railways were under pressure from governments, municipalities and others to construct more mileage into new areas. Notwithstanding this urging, construction was only commenced in the areas indicating sufficient traffic potential. It was also a period of aggressive action by Canadian National and competitive counter-measures by Canadian Pacific.

The situation changed almost overnight with the onset of the Great Depression. The Duff Inquiry was conducted at a time when the depression was a matter of real concern. Branch line construction in the Prairie Provinces in many cases preceded development and time was required to generate the traffic potential of these lines. Viewing this situation in 1932 when the construction of the lines had been barely completed and at a time when the economy was in a severe depression, it is not unexpected that the Commissioners expressed concern as to the marked increase in railway construction. No one at that time could have foreseen the tremendous economic expansion which has occurred in Canada since 1932. In the intervening period the population has increased by about 58%; revenue ton miles on Canadian Pacific by 158%; and the gross national product (in constant dollars) by 255%.

It may well be that intense competition between Canadian National and Canadian Pacific, as well as optimism, resulted in Canadian Pacific building some lines in advance

of economic requirements. Basically, however, the growth in the economy and traffic has overcome the disability. I believe also that there will be a marked development of the Western Canadian economy in the near future. The development of potash in Saskatchewan and sulphur in Alberta, for example, will provide substantial rail tonnage. In addition, increased traffic can be expected from the further development of secondary manufacturing and processing of raw materials.

Since World War II, Canadian Pacific has constructed new branch lines largely to develop mineral areas. This has been dictated by two factors: in the first place, much of the economic growth which has taken place in Canada in the post-war period has been associated with such development; in the second place, it is in the movement of bulk commodities that the inherent economic advantages of railway transportation are most pronounced. Prior to the 1930s the emphasis was on the requirements of agriculture. There has been no significant expansion of new agricultural areas in the post-war period which required additional railway construction.

I might mention that in this period the railways have again been urged to construction of additional mileage serving agricultural areas. For example, in 1944 the Premier of Saskatchewan urged the construction of over 300 miles of branch line by Canadian Pacific in Saskatchewan. As recently as 1954, the Federal Minister of Agriculture and others have urged the construction of a branch line in Saskatchewan. However, these suggestions have not been acted upon as it is not considered the lines proposed would be economic.

Since 1949 Canadian Pacific has constructed approximately 125 miles of trackage extensions at a cost of almost \$10 million. This mileage more than offsets line abandonments

in the period. The majority of these line extensions were required for the movement of products of a single shipper. These extensions have, for the most part, involved traffic agreements which in some cases require the shipper to pay an amount sufficient to amortize the line. As in any business undertaking, the prospect of earning a profit makes it worthwhile to assume some risk, and some major line extensions were built having in mind future economic growth.

Before the construction of any new branch line is undertaken, a very careful study is made of the following factors:

- (a) The volume and nature of traffic which would originate and terminate on the branch line and the revenue to be derived therefrom.
- (b) The cost of constructing, maintaining and operating the line as well as the cost of handling the traffic movement off-line.

In accordance with its policy, Canadian Pacific constructs branch lines in territories where the known or potential resources indicate a revenue return sufficient to meet the capital expenditures on the line plus the cost of handling the traffic and a profit margin. Construction of branch lines will be continued as required by the demands of the expansion in the economy in the future.

In this brief review of the construction of Canadian Pacific I have shown that the Canadian Pacific system was developed in accordance with the demands and potential of the economy of Canada and is now a well located and integrated unit spanning the entire continent.

Not only has Canadian Pacific railway system been developed and expanded with the Canadian economy, but a glance at its lines shows that it has been constructed to

suit the East-West traffic flows of an export economy and the consumption by Canadians of Canadian goods. The only way in which this could have been met at low cost was by the provision of an adequate well-located network of railway lines.

I have referred to the impression which the Duff Royal Commission Report may have created with regard to the construction of Canadian Pacific branch lines. There are still some people, unfamiliar with the essential ingredients of an efficient railway system, who state that Canadian Pacific has a branch line problem. This opinion, which is apparently based on some language from the Report, is quite unsound. It overlooks or ignores the tremendous development in the economy and the growth in traffic since 1932 which has had the effect of Canada growing into its railways.

Branch lines are physically connected to main lines and thus are an integral part of the railway plant. Their function is to generate traffic volume for the railway system as a whole. By virtue of being a gathering line, they are of necessity of low traffic density. The traffic moving over branch lines is not generally through traffic. It is traffic which originates at the stations on the line starting from the first station, with volume increasing progressively to the junction with the main line. These characteristics of branch lines were recognized by Canadian Pacific at the time of their construction. The fundamental approach of Canadian Pacific since its inception was to build branch lines to the standards required in the light of the existing or potential traffic in the immediate future. Rail laid in branch lines is relay rail and of lighter weight than in main line, ties are spaced further apart, ballast is of lower quality, subgrades are narrower, bridges are designed for lower loading capacity and are frequently of a less permanent type of construction. Because of their different characteristics,

the investment in branch lines and the costs of maintaining them are lower than in the case of main line.

It has been the policy of Canadian Pacific to upgrade branch lines and increase their capacity as the volume of traffic warranted. Because of their functions and the low density of traffic moving over them, the unit costs of operation on branch lines are greater than for main line operations.

Because they are an integral part of the railway plant, branch lines can be considered only in relation to the contribution made to the railway system. In considering the economics of a branch line, one must consider the following factors: the traffic density; future potential of the area; the revenue; the length of the branch line; the cost of operating the branch line; the length of haul; and the profitability of the movement of traffic beyond the branch line.

Detailed economic studies of individual branch lines are costly and consume much time. For these reasons, such studies are only carried out when the necessity is clear. In the management of a railway it is necessary to have certain criteria in one's mind when considering the economics of branch lines.

Based upon a branch line of average length and upon average conditions insofar as revenue per ton mile, length of haul, type of traffic and present costs, it is my view that a branch line with less than 25,000 net ton miles per mile of line would justify a detailed economic study unless there are clear overriding factors such as potential traffic. As the Commission knows, branch lines trains are short, but if you assume trains of, say 20 cars, or at 1,000 net tons per train, then that would mean four trains per month.

As part of the continuing review undertaken by Canadian Pacific into its branch line operations, a detailed density analysis by line segment is prepared periodically. The most recent such analysis was done in 1954. Pressure of work prevented preparation of one based on traffic figures of a more recent year.

On the basis of the 1954 system density analysis, there are some 850 miles of branch line with an average density less than 25,000 net ton miles per mile of line. Canadian Pacific now has or expects to have by the end of the year, applications for abandonment of some 310 miles of line. The measure of 25,000 net ton miles which I have mentioned is rough. I give it here only so that you may have an appreciation of the branch lines which appear suspect from an economic standpoint.

Although unit costs on branch lines are greater than for main line operations, these costs are, in most cases, significantly less than the costs of providing the transportation by other transport media: branch lines provide the lowest cost method of performing the transportation job. Branch line costs can only be compared, for purposes of calculations respecting resource allocation, with the cost of alternative forms of transportation. Much is said about the possibilities of using truck rather than rail transport for branch line movement without consideration of comparative rail-truck or transshipment costs. It is difficult to generalize on truck costs, but evidence placed before the Board of Transport Commissioners recently indicates the cost of moving grain a distance of 20 miles by highway as some 8.1¢ per ton mile or approximately $\frac{1}{4}$ ¢ per ton mile with trucks of 54,000 lbs. gross vehicle weight and assuming a 15 ton load. The cost would be greater in the case of smaller capacity trucks.

In the Report of the Royal Commission on the

Railway to Great Slave Lake, the Chairman, Mr. Justice Manning, states (page 14) that grain is trucked from Manning to Grimshaw at a cost to the farmer of 15¢ per bushel, for a distance of 60 miles. This is a cost of 8.35¢ per revenue ton-mile. Further, (at page 15) he states that the cost of trucking grain from Fort Vermilion to Grimshaw, a distance of 250 miles, is 50¢ per bushel which amounts to 6.7¢ per ton-mile. Mr. Justice Manning stated that concentrates from Pine Point could be brought to Grimshaw by truck for 4 to 4½¢ per ton-mile. This is a distance of some 437 miles, and to arrive at this cost would require specially built trucks able to handle loads of approximately 20 tons.

Using average total branch line operating costs, it is only where density is less than 25,000 ton miles per mile of road that fewer of the nation's economic resources are required to move traffic by highway than by railway. As I have indicated, there are few miles of branch line on Canadian Pacific where this condition prevails, and far fewer still where road conditions and the topography of the country permit the trucking of bulk and other freight traffic for any distance at less cost in territories served by branch line.

The possibility of the amalgamation of branch lines has been mentioned in these proceedings. It appears that this suggestion arises at least in part, from the belief that there is extensive duplication of railway branch lines, particularly in Western Canada. There are in fact very few branch lines in Western Canada which make it feasible for one carrier to provide a service to the shippers of another carrier. The reason for this is that the cost of trucking traffic for short distances is much higher per unit. A second reason is that examination of the lines of Canadian Pacific does not disclose any significant mileage where amalgamation of branch lines is feasible because of topography,

distance, road conditions or traffic volume. Moreover, Canadian Pacific is of the view it is important to preserve competition and the freedom of choice by the shipper wherever practicable.

Where parallel lines do exist, whether owned by one company or different companies, and each line is uneconomic but withdrawal of one of the two lines would make the remaining line economic, then it is the view of Canadian Pacific that this policy should be pursued.

Since 1954 Canadian Pacific has abandoned 65 miles of branch lines. It presently has before the Board applications to abandon part of the Neptune Subdivision and the line between Reston and Wolseley, in the Prairie Provinces. It also has pending before the Board applications for the abandonment of the Weston and the Kingsport subdivisions in Nova Scotia. Based on studies which have been made, I expect that before the end of the year, applications will be filed to abandon all or a portion of five more branch lines in Western Canada, totalling about 77 miles, and four branch lines in Eastern Canada, totalling about 63 miles. Canadian Pacific will continue to watch the economics of the various parts of its system and when it is determined that a branch line is not economic or does not show a reasonable prospect of becoming so within a reasonable time, appropriate action will be taken.

If, of course, just and reasonable remuneration for the handling of export grain in Western Canada is not to be received by the railway, a very large mileage, something over 2,500 miles, of branch lines in the Prairies will of necessity be candidates for abandonment.

Canadian Pacific is fully conscious of the service being provided to numerous small communities by its branch line services and it wishes to continue to be able

to give service to these communities where it is economically feasible to do so. I think the Commission has been told that there is no program on Canadian Pacific for a large scale abandonment of branch lines. I wish to emphasize this. As I have stated, the situation will be watched and abandonment applications will be made where necessary from time to time. I think the public should be reassured and I think it is to be regretted that because of some statements made in these proceedings, there is a general feeling in some areas that there is a large branch line problem and the railway that people have relied on in many communities over large areas is no longer to be there to handle their goods economically and efficiently.

There seems to be general agreement, in the evidence that has been given to this Commission, that the railways should be free to abandon unprofitable branch lines. There has been some suggestion, however, that a program of abandonment for individual lines should be prepared and made known and the actual abandonments made only after a long period of notice.

This suggestion indicates an obvious misunderstanding of the realistic approach of Canadian Pacific in making application for abandonment. Applications for abandonment are made only after full consideration, as I have already indicated. After the application is filed it is sent to all parties concerned and officials of the Company visit the various communities served by the branch line to explain the application and the reasons underlying it. In addition, the Board sends its Inspectors into the area to acquire a first-hand and impartial knowledge of the situation.

After the various parties have had an opportunity to prepare their cases, the application is heard by the Board. The practice of the Board is to hold

its hearings in the area in which the branch line is located. The members of the Board, where necessary, make their own inspection of a branch line proposed to be abandoned. At the hearings, full opportunity is given to all parties to present their case. The principle followed by the Board in these cases is to determine whether the loss and inconvenience to the public consequent upon the abandonment outweighs the burden that continued operation of the branch line would impose on the railway company. Thus the Board is in a position to assess the effect of the abandonment on all users of the branch line and to take into account in its decisions all factors relating to the loss or inconvenience to the public.

This determination should not be postponed merely because some people think their interest should have a priority over other interests. There is no contractual relationship between the railway and the people using a branch line that it should be continued. The railway is in no different position than a factory, an elevator or a bank which moves into a community and upon which the community has relied and when the facility is withdrawn, loss and inconvenience to the public result.

It is important that railway management be permitted a maximum degree of flexibility in adjusting branch line operations to changes in conditions as they may occur in order to have financially sound railways and the lowest transportation cost possible.

Canadian Pacific is opposed to any suggestion of a branch line maintenance fund. It is my understanding that this proposal as advanced by the Province of Manitoba would entail payments from the national treasury to the railways in respect of branch lines that would otherwise be abandoned. To apply national funds in the perpetuation of an uneconomic branch line is clearly a misuse of such

funds. By the time traffic on such a branch line has dwindled to the point that the branch line is no longer economic at just and reasonable rates, this is clear evidence that the branch line is no longer required and any artificial extension of its life is not sound from a national viewpoint. If it is to be maintained notwithstanding its uneconomic state, it can only be for a local convenience. Assuming that lines should be maintained for strategic defence reasons, and I do not know of any on Canadian Pacific, military traffic moving over the line could be billed at such rates as to make the line economic.

In the Manitoba submission it seems to be suggested that a fund for branch line maintenance would be created and that payments from this fund, although made in the first instance to the railways, would be required to be applied to reduce rates on class and non-competitive commodity traffic. Obviously, if there was a burden on the railway itself from an uneconomic branch line, this would not meet the problem. On the other hand, if it is assumed that the burden of an uneconomic branch line has been shifted to shippers, then a reduction in all class and non-competitive commodity rates would not benefit the specific shippers on the line and creation of the fund would only involve additional taxes on shippers not using the line. This suggestion can only arise from the mistaken belief that uneconomic branch lines exist in such large numbers that the burden of them is spread across class and non-competitive commodity shippers of the nation as a whole.

In essence, therefore, the Manitoba proposal is nothing more than a subsidy to particular shippers and has no relationship to branch lines.

With respect to branch line abandonments, it has been the experience of Canadian Pacific that considerable

opposition is generally experienced when the railway applies for abandonment. In such cases, the railway company is obliged to prove, not only that the line is uneconomic, but that its abandonment will not cause undue inconvenience to the public. This places an undue burden on the railway and Canadian Pacific believes that if the railway company establishes to the satisfaction of the Board that the line is uneconomic, then there should be a statutory obligation on the users of the line to show sources of revenues sufficient to make the line profitable.

In order to achieve this result, the following section to replace Section 168 of the Railway Act and new Section 168A are proposed:

168 (1) Where it appears that the cost of operation of a line of railway during a period of three consecutive calendar years and the cost of the movement of traffic originating or terminating on the line during that period have exceeded the revenues attributable to that traffic, the Company may abandon the operation of the line

(a) if no application for a stay has been made under subsection (3), after the expiration of a period of two months from the day on which notice was given to the Board under subsection (2), and

(b) if an application for a stay has been made under subsection (3), after that application has been withdrawn or dismissed by the Board.

(2) Notice of intention to abandon the operation of a line of railway shall be given in writing to the Board and a copy of the notice shall be posted in each station on the line to be abandoned; and, if the Board so directs, a copy of the notice shall be mailed to such users of the line as may be designated by the Board.

(3) During the period of two months immediately following the day on which notice was given to the Board under subsection (2), any person who has used the line during the period of one year immediately before that day may apply to the Board to stay the abandonment of the line.

(4) Unless the application for a stay is sooner withdrawn, the Board shall set the matter down for hearing within the period of thirty days immediately following the receipt by the Board of the application, or within such further period as the parties may agree upon.

(5) Where the Company has given notice of intention to abandon the operation of a line of railway under this section and an application has been made for a stay, the Board may grant the stay if it is satisfied

(a) that the cost of operation of the line during the period of three consecutive years adopted for the purposes of subsection (1) and the cost of the movement of traffic originating or terminating on the line during that period did not exceed the revenues attributable to that traffic, or

(b) that sources of revenues for a reasonable period in the immediate future sufficient to exceed those costs during the same period have been guaranteed;

and, if it is not so satisfied, shall dismiss the application for a stay.

168A Notwithstanding Section 168 a railway company may, with the approval of the Board, abandon the operation of any line of railway and, except as provided by Section 168, no company shall abandon the operation of any line of railway without such approval.

III - PASSENGER TRAIN SERVICE

Canadian Pacific Railway was built to connect the seaboard of British Columbia with the railway system of Eastern Canada and for the development of the then Northwest Territory. From its inception Canadian Pacific was primarily a means of moving heavy tonnage over long distances. It provided the means for the economical transportation of the natural resources of farm, mine and forest to the more heavily-populated regions. It is important to recognize this background of Canadian Pacific.

The fundamental concept of Canadian Pacific system can be seen most easily by looking at the network of lines on the Prairies which were largely built to handle the basic commodity of the region - grain.

Large scale immigration in the first third of the Company's history made passenger traffic, as such, appear relatively more important than it was in fact in the long-term concept of the builders of Canadian Pacific. In the period 1910 through 1930, undoubtedly passenger traffic made a significant contribution to meet railway overhead costs and in this way assisted in meeting the burden that would otherwise have had to be borne by freight traffic. In the 1920s, which was a profitable period for Canadian Pacific, there was a reasonable relationship between the proportion of revenue earned by passenger train service and the proportion of total transportation work performed. For example, in the year 1926, passenger train revenues were approximately 24% and passenger train gross ton miles were approximately 20% of the total revenues and gross ton miles respectively.

For purposes of analysis, the depression of the 1930s and the impact of the war make an appraisal in the years between 1930 and 1946 unrealistic and therefore of little significance.

The important point is that freight transportation was the fundamental purpose for the construction of the railway and passenger traffic was a by-product of the transportation plant. As was expressed by one of the senior officers of Canadian Pacific a number of years ago, anything over variable cost from passenger train service was a dollar of velvet for the assistance of freight.

However, the position of passenger service was radically changed from the period when such service constituted a virtual monopoly with the rapid development of extensive competition from the private automobile and air travel after World War II. The impact of this competition made passenger traffic a specific problem for the first time and necessitated a revision in the approach of the Company to the provision of this service.

The first approach to this problem was an endeavour to make it profitable again by improving equipment and service and by appropriate fare increases. When, as I will indicate, this action proved ineffective, unprofitable services were first reduced and subsequently the policy decision was made to restrict passenger train service substantially so that the Company would phase out unprofitable operations. It is believed that some inter-city services will meet their variable costs and make a contribution to railway overhead costs.

It is completely unrealistic in considering passenger train service on Canadian Pacific to look upon it either historically or currently, other than as traffic which is moved on an incremental basis and this has nothing to do

with economics or what some people term incremental by necessity and not by fact.

It is equally unrealistic to consider that passenger train service on Canadian Pacific is a problem which cannot be met by managerial action. The progress made on Canadian Pacific in recent years has demonstrated this. I must emphasize, however, the necessity for realism in regulation in regard to the discontinuance of unprofitable runs.

I now propose to develop in some detail the changes which have taken place in passenger train service on Canadian Pacific in the post-war period, the amount of the passenger train deficit in 1958 and the action by which the Company proposes to eliminate this deficit.

1948-1953 Period

By 1948 the effects of military travel and war-related traffic had ended. Studies were commenced with a view to evolving and implementing plans in an endeavour to secure the optimum share of the passenger travel market which, with the spread of the 40-hour week, was expanding.

Canadian Pacific planning proceeded in the knowledge that much of the passenger car inventory had become obsolete and that competition from other media of transport would become keener.

Following the lifting of wartime restrictions on gasoline, tires and production for civilian use, the number of automobile registrations rose spectacularly. From 1900 through 1947 the annual increase in motor vehicle registrations in Canada averaged less than 40,000. In the period from 1948 to 1953 the average annual increase was almost 266,000, of which passenger automobiles represent some 72%. Similarly, but to a lesser extent, travel by air

began to increase. During this period, however, the frequency, reliability and comfort of air travel which is so marked a feature of present day air service had not been accomplished. Aircraft were noisy and less commodious, flights were frequently cancelled and the public had not accepted air travel to any general degree. Nevertheless, the growing competition from air travel was having an effect.

After the war, wage rates and material prices began to climb indicating the necessity for action in connection with passenger fares and rates on mail and express.

Basic coach class rail fares were increased by 15% and basic first class rail fares were increased by the same percentage in the spring of 1949. Sleeping and parlour car fares were increased by 25% in 1949. Further rail, sleeping and parlour car increases were introduced with respect to certain traffic and areas in the balance of the period.

The possibility of higher passenger rates was reviewed continuously during this period but action in this respect had to be tempered with the knowledge of the latent and growing competition from automobile and aircraft.

With respect to mail, the railway supplies mail cars to the Post Office Department charging a specified rate per mile. In addition, it makes available space in other cars for which it charges rates varying with the space provided. After protracted negotiations with the Post Office Department, an increase of 25.8% in mail rates was agreed to effective December 1, 1948. Subsequently, further negotiations resulted in acceptance by the Post Office Department of the general principle that mail rates would increase by the same percentages and at the same time as general increases in freight rates. Mail rates in the period 1948-1953 were increased by 71%.

The Express Company has three basic tariffs: a block tariff with graduated charges on shipments weighing 1 to 100 pounds; motor truck competitive tariffs; and a small package tariff. Increases in the graduated charges were made in 1949, in 1952 and in 1953 and increases in the long distance rate and under the small package tariff were made in 1951. In addition to these changes, increases have been applied as competitive conditions warranted, to motor truck competitive rates and commodity rates such as less carload and carload fish and fruit rates. Miscellaneous charges such as c.o.d. fees, valuation charges and customs service fees have also been increased to the fullest extent possible.

Passenger train service involves an interplay of rates and patronage. The problem facing Canadian Pacific with respect to long haul passenger traffic in the years immediately following the war was to provide a service offering features which would offset the speed of air travel or the convenience of the private automobile. The reliability and safety of rail travel was emphasized and Canadian Pacific sought to provide comfortable modern equipment which could be operated and maintained at the least possible cost.

Many passenger cars were modernized by installing air-conditioning, improving the heating and lighting, enlarging the windows and redecorating the interiors. The modernization program was limited to equipment suitable for this, but with the retirement of many obsolete cars there was a need for new passenger equipment. Studies were instituted in 1952 to determine the best type of equipment from the standpoint of passenger appeal and economic operation. These studies led to the decision to buy stainless steel cars of the most modern design incorporating marked improvements in riding qualities and introducing to Canada a distinctive Canadian decor and the advantage of the scenic dome. This equipment enabled

improved accommodation to be given on inter-city runs and also the introduction of The Canadian, which has been regarded by the public as one of the world's finest passenger trains. This equipment has been the means of retaining many thousands of travellers. It has permitted a substantial reduction in the overall running time and the type of interior and exterior design used has permitted substantial reduction in maintenance costs.

The tremendous growth in the number of automobiles and the improvement of highways had a particularly serious impact on branch line passenger runs. Many branch line passenger services were no longer being patronized and a decision was made to reduce passenger services on these runs in accordance with the reduced demand.

Examination of certain short and medium length runs indicated the possibility of profitable operation if the cost associated with conventional trains could be reduced by the substitution of self-propelled equipment. Self-propelled equipment offered high speed, travel comfort and substantial savings in operating and maintenance costs over short and medium length distances. Canadian Pacific in 1953 pioneered the introduction of rail diesel equipment in Canada. It is worthwhile drawing to the attention of the Commission that by voluntary agreement, the Company and the operating unions have operated these cars with restricted crews. Firemen are not used on rail diesel cars operating either singly or in multiple and the number of trainmen is also restricted on most runs as compared with the normal crew complement of conventional trains. The service proved an immediate success and has been extended to many inter-city runs. Canadian Pacific with 54 RDC cars has the second largest fleet of this equipment of any railway.

1954-1959 Period

In the period 1954-1959, the cumulative effect of the rapid growth of competitive media of passenger transport became fully apparent. With the increasing use of motor vehicles, pressure on federal, provincial and municipal governments had its inevitable effect in increased expenditures on highways. Whereas these expenditures averaged \$343 million in the period following the war to 1953, they averaged \$743 million in the period 1954 to 1958 (last year available). Automobiles improved in comfort, speed and ease of handling. The rising standard of living in Canada meant that more people had money to buy automobiles and could afford the added convenience of this private transportation over rail travel.

In the realm of air travel, the changes were even more startling. Technological developments in aircraft and engine design, navigational aids and terminal facilities combined to produce extremely fast, comfortable, dependable, all-weather air travel. One has only to think of the progression from the small Lockheed Lodestar and the noisy North Star to the Constellation, to the DC-6B, to the Viscount, to the Britannia, to the DC-8, to realize the marked and rapid advance in aircraft.

Coupled with these changes in aircraft and improvements in navigational aids and terminals came a marked improvement in ground services for the convenience and comfort of passengers. This period saw a full development of public confidence in and enthusiasm for air travel.

The development of air and automobile travel made it necessary for Canadian Pacific, which had already begun to reduce passenger service on some of the branch lines, to intensify this program and to expand it to cover some main line services. This program took the form of reduction

in frequency, consolidation and discontinuance of passenger train services. In addition, as stated, many rail diesel cars were substituted for conventional passenger trains.

Earlier I made mention of action taken with respect to passenger fares and mail and express rates prior to 1954. During the years 1954 through 1959 further adjustments were made in various fares sometimes covering only certain classes of traffic and areas. In the Fall of 1957, basic first class passenger fares were increased by a further 10% and basic coach fares by a further 5%. In the years 1954-1959 fare adjustments continued including the introduction of group economy coach class fares, weekend fares, excursion fares, family travel plans and all-inclusive travel plans, in an effort to stimulate rail passenger travel. Action with respect to mail and express rates was continued in the period 1954 to 1959.

Whereas transcontinental trains originally afforded the only means of travel between east and west, they now constitute largely a series of local inter-city runs. This change in concept of transcontinental travel may mean some change in equipment requirements, as for example, the substitution of coaches for sleeping and dining cars, and may also have significance in the pricing of passenger fares, which I will mention later.

Earlier I said that Canadian Pacific had a passenger train problem. This problem has been attacked in an aggressive manner. The Company's endeavour to discontinue unprofitable passenger train services has only been accomplished in many cases with a tremendous amount of work. Special teams of operating and traffic officers have visited areas where services were to be discontinued, met with Boards of Trade and Councils of towns and municipalities and explained the situation. Substituted service by highway

for the handling of express was planned and applications to provincial regulatory boards were made for the requisite licences. These applications for highway licences were, in many cases, strenuously opposed by truckers who thought they saw an advantage which they could capitalize on in Canadian Pacific's endeavour to discontinue unprofitable passenger train service.

In a number of cases, when applications for passenger service discontinuance were made to the Board of Transport Commissioners, opposition developed and protracted hearings were held in the areas concerned before authority for discontinuance of service was secured.

It is difficult to have the public accept the fact that the railways have no duty to provide a convenient stand-by service and that operation of passenger trains which are not sufficiently used, is costly. Long delays had to be faced and great care and study preceded every decision to discontinue passenger service in an area.

I doubt whether it is fully realized the extent to which Canadian Pacific is now a freight road. I indicated earlier that less than 10% of the transportation work done by Canadian Pacific is referable to the movement of passengers. Of the approximately 17,100 miles of road operated by Canadian Pacific, there were at the mid point of this year some 9,150 miles where only freight or mixed train service operated. Over the 7,950 miles of road where passenger trains are operated, the frequency in every area has been progressively reduced in keeping with the lessened demand for service. In the years 1954 through 1959, about 100 passenger trains have been discontinued on Canadian Pacific. In this period annual passenger train-miles have been reduced by some 6 million or 29%.

It is significant in my view that Canadian Pacific has been able since 1953 to reduce its passenger train-miles by 29% and at the same time to maintain passenger train gross revenues of \$61.7 million, which is only 11% under the gross revenues of 1953. This has resulted from the successful implementation of the equipment program I have referred to earlier and the fare and rate adjustments which have been made, together with the better utilization of space on passenger trains being operated.

Canadian Pacific has pursued a vigorous policy with a view to reducing the loss in providing passenger train services. As a result of this policy, the operating deficit of passenger train services for the year 1959 was some \$14 million less than it would have been had the program of elimination, reduction, substitution and consolidation of passenger trains I have discussed not been implemented during the period 1954 to 1959.

Frankly, our task is becoming more difficult as people, without regard for cost and for reasons which they may think appropriate, attempt to force the continued operation of unnecessary passenger train services. The strongly contested application to discontinue passenger train service on Canadian Pacific between Winnipeg and Edmonton via Yorkton and Saskatoon is an example. It is, I think, worthy of note that a number of people use train travel only as an alternative when highways are congested or when space on aircraft is not available. The modern demands of business require of many the speed of air travel. The members of your Commission, in their extensive travels throughout Canada, were no different from other busy people in the mode of transport they used. This was in marked

contrast to the manner in which the Turgeon Royal Commission travelled in 1949 when surface transport was used exclusively, with the exception of the trip to Newfoundland.

Mr. Crump has stated to the Commission that he knows of no passenger train operated by Canadian Pacific which is required in the national interest. The concept of Canada as a land of great distances served by poorly-built and maintained highways is no longer sound, nor are there many populated areas which have not got scheduled air service. A few cities in Canada have the benefit of competitive air service. Most populated centres are served by scheduled bus operations. As well as inter-city runs, bus routes crisscross the rural areas of the country and it is significant that the Trans-Canada highway parallels the Canadian Pacific main line throughout practically its entire length from the West Coast to Eastern Ontario. This does not mean that passenger train service will disappear. It does mean that it is no longer a necessity. It does mean that Canadian Pacific, while it has done a great deal in tailoring its passenger train service to the patronage it can attract, has still more to do and I intend to discuss this later in my evidence.

With respect to the necessity for passenger train service in the modern-day economy, Dr. W. D. Gainer, one of the Commissioners of the Royal Commission on the Railway to Great Slave Lake, in the report of the Commission dated June 30th 1960, said at page 31:

"In terms of any social benefits that railroads were once able to provide to settlers by reason of improved facilities for personal travel and communication with other regions, there are none to be associated with a railroad extension to the west. (that is, a railway built north of Grimshaw) In our day, the means of personal travel and communication are far more uniformly and cheaply provided by means of such facilities as roads, radio and line telecommunication and the like. This fact of our times is generally recognized by most people".

At page 55, in discussing the long term requirements of the North for transport facilities, he said:

"Because of the development of new types of passenger and freight carriers, the railroad no longer constitutes the only means of providing accessibility and communication to and between various regions and centres of population no matter how isolated. Even more important, more personal modes of travel have become available with the widespread use of the automobile particularly. As a result, the provision of all-weather roads at present stands as the ultimate and preferred social requirement in terms of personal travel at least."

With the reduction and curtailment in passenger train service, a large number of passenger train cars no longer required were retired from service. The extent of this retirement can be gathered from the fact that in the period 1957-59 there was a reduction in our passenger car fleet of 713 cars, or 27%.

The question of the continuance of passenger train service which is not otherwise required for purposes of national defence has been raised. Obviously the possible use of passenger train equipment for national defence does not require the continued operation of passenger trains. At most, it would require the maintenance of passenger train equipment. However, with the very large capacity now available in aircraft, buses and private automobiles, it is indeed problematical whether such equipment need be held. In any event, if passenger equipment needs to be held for purposes of national defence, the cost of mothballing equipment which would otherwise be scrapped can be arranged and the cost of so doing billed to the Department of National Defence in the same way as the Department pays for other railway services. In view of the drastic scrapping program we have for passenger equipment in Canadian Pacific, Canadian Pacific has raised the question of Department of National Defence requirements for maintenance of such equipment with that Department.

I now propose to turn to consideration of the passenger train deficit in 1958, indicating its extent and then review the plans of management for the elimination of this deficit.

By direction of the Commission, Canadian Pacific has developed the passenger train service revenues and costs for 1958. Costing principles used in the cost study of moving grain at statutory and related rates to export positions have been adopted insofar as these principles are applicable to the costing of an entirely different type of service. The cost of grain was developed on the basis that the traffic volume of 1958 would, on the average, continue to be moved and that major reductions in investment in equipment and plant were not envisaged. Passenger train service, on the other hand, is undergoing a marked transition and this fact must be recognized in the costing principles applied and weight given to the managerial decisions and plans of the Company.

Revenues and expenses of commutation service were excluded, since it is the position of the Company and the Board of Transport Commissioners that commutation service must be considered as a separate entity.

The methods used in the grain cost study were applied in road and equipment maintenance expenses and transportation expenses. This included regression analysis and direct costing where appropriate. Traffic and general expenses applicable to passenger train services were available as a result of the special study used in developing the cost of moving export grain.

The results of the passenger train cost study for 1958 are:

Revenues, including the value of free transportation		\$70,454,260
Expenses -		
Operating expenses (including depreciation on all equip- ment and full cost of solely related lines)	\$91,404,929	
Cost of money (on investment to be perpetuated at 10.4%)	<u>8,401,805</u>	<u>99,806,734</u>
		\$29,352,474
Less income tax (at 47%)		<u>13,795,663</u>
Passenger train service burden in 1958		<u>\$15,556,811</u>

Passenger train revenues and expenses are on a constructive 1958 year-end basis. The value of free transportation was developed on the basis of a special study for the period March 1959 to February 1960.

A special study was performed to determine miles of track solely related to the passenger train service. This trackage consisting entirely of yard, station and associated passenger lines, amounted to 91.96 miles. This trackage would be abandoned if all passenger train service, excluding commuter service, was discontinued. The maintenance and investment costs per mile of track used in the grain cost study were applied to this trackage.

In determining the cost of money factor in the study it was necessary to take into account the managerial decisions made concerning passenger train service on Canadian Pacific in the future. The present passenger train fleet will be drastically reduced. Existing lightweight coaches, stainless steel equipment and rail diesel cars will meet the requirements of the service for many years to come. I do not envisage any significant capital expenditures on passenger equipment on Canadian Pacific in the next twenty years. Looking this far in advance as to what passenger train equipment will be perpetuated is extremely difficult, but my view is that

the investment in such equipment is in the order of \$40 million, as compared with \$104 million for the equipment presently in service.

The balance of the cost of money reflects investment in road property which was developed in the same way as that used in the grain cost study.

Income tax at the rate of 47% was deducted. The amount of income tax thus deducted is equal to the additional income tax which would otherwise be chargeable in respect of railway operations.

Earlier I have indicated the program undertaken by Canadian Pacific to adjust its passenger train services to the reducing demand and I showed that this program had met with considerable success in the period ending with 1959. I also mentioned discontinuance of Trains 41 and 42 between Winnipeg and Edmonton, approved by the Board in February 1960. Further adjustments in passenger train service will result in a further reduction of over two million passenger train-miles for the year 1960. This represents a reduction of 14.8% from 1959 or approximately three times the average rate of reduction of the previous six years.

I also indicated earlier the probably trends in passenger train requirements. Broadly speaking, these would appear to be a certain number of inter-city runs between the larger centres such as Montreal-Toronto, Montreal-Quebec, Montreal-Ottawa, Toronto-Detroit and Calgary-Edmonton. The type of service required will be predominantly a coach operation provided in part by RDC's, with overnight service limited to the next few years. It may be possible to re-schedule the transcontinental trains to serve other major cities between which it is envisaged inter-city service will continue to be required.

The reduction in passenger train services will make available for commercial use space in station facilities

which may be rented. Making the greatest use of the resources available to it in terms of net earnings has always been a paramount concern to the management of Canadian Pacific. As passenger train service is curtailed, an intensive effort will be made to use space released for other purposes.

In the highly competitive passenger travel field in which Canadian Pacific now finds itself, pricing has become of great significance. Canadian Pacific proposes to continue to explore and experiment in this field to the fullest extent necessary to maximize rail passenger net earnings. On July 5, 1960, the Board of Transport Commissioners approved an increase in standard first class passenger fares from 4.4 cents to 5 cents a mile and the increase so authorized will be applied selectively.

For example, it is considered that for shorter distances between major cities where air transportation is not of the same significance as it is over greater distances, passenger fares could be higher. Further, to stimulate travel during the week when there is a surplus of equipment and facilities, it is proposed to experiment with lower mid-week and higher weekend fares in some areas. Such an arrangement would tend to improve equipment utilization and reduce equipment inventory to shade peaks. Another feature is the possibility of lower fares during the winter season to encourage travel during this off-peak season.

Canadian Pacific is continuing to scrutinize the costs of passenger train operations in relationship to revenues earned. The objective is to continue such operations involving the utilization of existing facilities only so long as revenues are sufficient to cover costs variable with traffic and to contribute to the recovery of depreciation.

In pursuance of its policy to discontinue

neconomic passenger train services, the Company has made applications for approval of discontinuance to the Board of Transport Commissioners. On these applications, the railway is obliged to satisfy the Board that the discontinuance of passenger train service on a line will not cause undue loss or inconvenience to the local population. In its judgment dated February 18, 1960, with respect to Trains 41 and 42, the Board reiterated the principle which it has followed consistently under the present Railway Act:

".....will the loss and inconvenience to the public, consequent upon a discontinuance of service, outweigh the burden that continued operation of the service would impose upon the Railway Company?"

It is the opinion of Canadian Pacific that this burden of proof is misplaced and that in cases where the railway applies to the Board to discontinue passenger service and satisfies the Board that the service is unprofitable, then there should be a statutory onus on the person or persons opposing the application to establish the source of additional revenues to make the service profitable. It is the view of Canadian Pacific that the responsibility of the railway company is only to show the use made of rail service and the burden that continued operation of the service would impose, and thereafter the burden should be on any person opposing.

Canadian Pacific therefore proposes the addition of sections to the Railway Act to be numbered 315A and 315B as follows:

315A (1) Where it appears that the cost of providing passenger service on any line of railway during a period of one calendar year has exceeded the revenues received therefrom for that period, the company may discontinue passenger service on that line

(a) if no application for a stay has been made under subsection (3), after the expiration of a period of two months from the day on which notice was given to the Board under subsection (2), and

- (b) if an application for a stay has been made under subsection (3), after that application has been withdrawn or dismissed by the Board.
- (2) Notice of intention to discontinue passenger service on a line of railway shall be given in writing to the Board and a copy thereof shall be posted in each station on the line of railway on which the passenger service is to be discontinued.
- (3) During the period of two months immediately following the day on which notice was given to the Board under subsection (2), any person who has used the passenger service in respect of which the notice was given during the period of one year immediately before that day may apply to the Board to stay the discontinuance.
- (4) Unless the application for stay is sooner withdrawn, the Board shall set the matter down for hearing within the period of thirty days immediately following the receipt by the Board of the application, or within such further period as the parties may agree upon.
- (5) Where the company has given notice of intention to discontinue passenger service on a line of railway under this section and an application has been made for a stay, the Board may grant the stay if it is satisfied
 - (a) that the cost of providing the passenger service during the period of one year adopted for the purposes of subsection (1) did not exceed the revenues therefrom for that period, or
 - (b) that sources of revenue for a reasonable period in the immediate future sufficient to exceed that cost have been guaranteed;

and, if it is not so satisfied, shall dismiss the application for a stay.

315B Notwithstanding section 315A, a railway company may, with the approval of the Board, discontinue passenger service on any line of railway.

Canadian Pacific is firmly of the view that the passenger train problem is not one requiring solution by way of national subsidy. Passenger train service on Canadian Pacific is no longer required for the economic well-being of Canada. It does not meet a national need for sociological reasons because of alternative forms of transport between points situated on the Company's lines. Canada and its rail transport industry cannot afford the luxury of providing costly and unnecessary

passenger services. If a national subsidy were to be applied and thereby perpetuate unnecessary passenger service, it would be a flagrant misuse of public funds.

Theoretically, a locality with the knowledge that it was to be responsible for any shortfall in revenues, could continue to insist that rail passenger service be provided. Such a situation in my opinion would be rare. The only locality to my knowledge that has indicated any suggestion of bearing any cost is in commuter service, where there is demonstrable savings in road and other local costs.

Canadian Pacific believes that there is an area within which the operation of passenger trains can be profitable. Moreover, the significant conclusion from the events of the last few years is that the passenger deficit is a problem which is within the power of railway management to rectify given a realistic public climate and reasonable regulation. I have indicated that the transition of passenger service to the level which will be economically used will have to be gradual.

I now wish to discuss the question of free transportation and transportation at reduced rates.

The Railway Act, 1903, established for the first time free transportation privileges. Such privileges are also provided by the Customs Act, the Canada Grain Act and the Immigration Act.

Railways are required by statute to give free transportation as follows:

- (a) Under the Railway Act (Section 351) on any of the trains of the railways, to members of the Senate and House of Commons, members of the Board of Transport Commissioners and such officers and staff of the Board as the Board may determine;
- (b) Under the Customs Act (Section 135) to a number of classes of customs officials upon the request of the Minister of National Revenue;

- (c) Under the Immigration Act (Section 47) as directed by the Minister of Immigration to officers where required, in connection with their official duties and also to one immigration officer of each Provincial Government;
- (d) Under the Canada Grain Act (Section 53) on all lines within Canada to members of the Board of Grain Commissioners, Secretary of the Board, Chief and Assistant Inspector, Chief and Assistant Weighmaster, and within Western Canada or Eastern Canada to the principal inspection officer of the Board for that territory.

Under the Post Office Act (Section 34) when required by the Postmaster General, common carriers are required to carry duly accredited postal employees on such terms and conditions and under such regulations as may be prescribed by the Governor in Council.

Under the Railway Act (Section 350) railways are permitted to give free transportation or reduced rates to various named classes of persons and the Board is authorized to extend, restrict, limit or qualify such carriage by general regulation. Under the authority of this section, the Board, by General Order 656 dated December 13, 1943, permitted railways to issue free transportation to various classes of persons including those named in Section 350 and the statutes I have mentioned (excepting Section 351 of the Railway Act) and a number of other classes of persons.

When the Acts covering issuance of free transportation were passed, the railways were the only reasonable means of transportation. However, since that time, with the extension of highways and the rapid development in the air transport industry, they are now only one of several means. The other transportation agencies are not required by statute to provide free transportation to members of Parliament and representatives and officers of Government Departments.

Since 1950, Canadian Pacific has been endeavouring to minimize the issuance of free transportation

and thereby improve passenger revenues. In this connection, it is of interest to note that in commuter cases the Board has taken the position that the value of free transportation provided by passes must be a credit to commuter revenues as though the passholder had paid full commutation fare. The railways have eliminated free transportation in commuter service and substituted full fares for all except its own employees, who are required to pay half-fare without any refund privileges.

Prior to 1954 a few restrictions on the use of passes issued under Section 350 of the Railway Act were in effect. Commencing in that year restrictions were progressively imposed prohibiting travel on all except statutory and business passes on certain heavily patronized trains and in particular, on certain trains during the heavy weekend periods. Notwithstanding this action, a very substantial amount of free transportation of both the statutory and permissive classes is still a factor in Canadian Pacific passenger train operations.

As developed by a special study, Canadian Pacific in the 12-month period March 1959 to February 1960, provided free transportation to an estimated total value of \$6.7 million.

In furtherance of this policy of minimizing free and reduced rate transportation, Canadian Pacific intends, effective January 1, 1961, to place the following further restrictions on free transportation and reduced rate transportation presently being issued under General Order 656 B.T.C.:

- (i) Employees and dependants of other railways or transportation companies will be required to pay one-half fare.

- (ii) Existing free transportation privileges will be continued to: destitute and homeless persons; directors, officers, agents and employees of Canadian Pacific and their dependants; officers and employees of traffic associations and similar joint agencies; retired officers and employees of Canadian Pacific and their dependants; railroad Y.M.C.A. officers and employees; police officers; railway labour organizations officers; experts rendering services to Company under certain contracts between vendors and the Company; officers and employees of the Department of Immigration and Colonization, the Department of National Revenue and the Post Office Department who are required to perform their official duties on trains; movement of Government agricultural demonstration cars and movement of Canadian Forestry Association demonstration cars.
- (iii) All other free transportation issued under authority of General Order 656 to be eliminated.

The policy of the Parliament of Canada is to provide free transportation to its members. Canadian Pacific does not suggest that this privilege should be discontinued. However, Canadian Pacific considers that it is inequitable that the provision of this transportation should be a burden on railways or on shippers and that railways should be reimbursed for the value of the transportation provided. Its position is that the Government should pay the railways for the transportation of all persons on its behalf, just as it now pays for the transportation of goods.

Therefore it is suggested that when members of the Senate and House of Commons or their dependants wish to make use of rail passenger services, they present an appropriate certificate at our ticket offices, whereupon they will be issued with regular rail tickets in the same manner as any other passenger. The value of the transportation covered by the tickets issued in this way would then be recorded and recovered from the Government by the railways by periodic billing.

Neither in the United States nor in the United Kingdom is there a mandatory requirement on railways to provide

free transportation to elected legislative members or to government officers or employees. In the United States, Congressmen and Senators are reimbursed by the government for trips to and from sessions. In the United Kingdom the government accepts financial responsibility for rail travel of a member of Parliament between his home, constituency and London. As for members of the House of Lords attending regularly, rail fares between their homes and the Palace of Westminster are defrayed by the government. So far as officers and employees of departments of the government are concerned, no free transportation is issued to them by the railways in the United Kingdom. In the United States, however, postal employees, immigration inspectors and customs inspectors may receive free transportation from the railways but the issuance of such transportation is left entirely to the discretion of the railways.

To remove the obligation now imposed by the Railway Act and other Acts to which I have referred requiring the railways to provide free transportation, the following legislative change is proposed:

Repeal Sections 351 and 352 of the Railway Act and substitute the following:

- 351. Notwithstanding anything in any other Act, no railway company is required to provide free transportation to any person.
- 352. Subject to the provisions of Section 350, no company shall hereafter, directly or indirectly, issue or give any free ticket or free pass, whether for a specific journey or periodical or annual pass, and no company shall otherwise arrange for or permit the transportation of passengers except on payment of the fares properly chargeable for such transportation under the tariffs filed under the provisions of this Act, and at the time in effect.

Commuter Service

Commuter service is entirely distinct from general passenger train services. It is provided in the

Montreal and Toronto areas and serves only the local needs of those areas. Commuter revenues on Canadian Pacific constitute a small portion of passenger revenues, being in 1959 2.7% of total passenger revenues.

Canadian Pacific has made rate adjustments in recent years to meet the rising cost of providing this service. Commutation fares were increased in 1950, 1955, 1956, 1957 and 1960. The effect of these increases was to raise the price of commutation tickets on the Montreal-Lakeshore run by 137%. The most recent rate adjustment was made following hearings by the Board of Transport Commissioners in the summer of 1959. In its judgment the Board said:

"We consider that over a reasonable period the increased fares being permitted will afford Canadian Pacific an opportunity to recoup its out-of-pocket costs of its suburban services."

and further:

"We believe that the increases coupled with the co-operation of commuters and intensified efforts by the railways and their employees to operate the services with efficiency and without unnecessary expense, will give the railways an opportunity to break even in revenues and expenses in the services concerned."

Canadian Pacific is in full agreement with the position of the Board that commuter service should not be operated at a loss and will continue to arrange commuter services to meet the demands of these local areas within the revenues available.



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In regard to the tables I would like to have them marked as exhibits, if I may, Mr. Cooper and members of the Commission.

--- EXHIBIT 165 Statement 900

--- EXHIBIT 166: Statement 901.

--- EXHIBIT 167: Statement 902.

--- EXHIBIT 168: Statement 903.

--- EXHIBIT 169: Statement 904.

--- EXHIBIT 170: Statement 905.

--- EXHIBIT 171: Statement 906.

--- EXHIBIT 172: Statement 907.



1
2
3 Q. And that is all the statements?

4 A. Yes.

5 Q. Have you marked yours?

6 A. I did. The correction I referred to
7 earlier applies to exhibit 171.

8 Q. Yes?

9 A. The note at the bottom of the statement,
10 the second paragraph, should have, following the end
11 of the sentence, ",since 1956." So, the full note,
12 as amended, will read, "Data comprise railway payroll
13 plus commercial communications, Bay of Fundy service,
14 Great Lakes Steamships and British Columbia Coastal
15 Steamships, and exclude vacations and holidays with
16 pay since 1956."

17 Also, a minor correction at line 14 in
18 column 2: the figures which read "133,422,229"
19 should read "133,422,299".

20 Q. Is the information contained in the
21 exhibits 165 through 172 correct to the best of your
22 knowledge and belief, Mr. Emerson?

23 A. It is.

24 MR. SINCLAIR: Mr. Chairman, and members of
25 the Commission, before Mr. Emerson answers my friends,
26 there was some evidence introduced by Manitoba dealing
27 with this subsection of the order in council dealing
28
29
30



1
2 with economic and efficient railway operations, and
3 certain statistics were filed by Manitoba, and I am
4 going to ask Mr. Emerson to comment on those. I can
5 do it now or tomorrow morning, if you wish.

6 THE CHAIRMAN: Tomorrow morning.

7 MR. MAURO: Mr. Chairman, before the
8 hearing adjourns, this matter of Mr. Edsforth's
9 cross-examination and the hearing of the C.N.R. is
10 paramount in the minds of counsel, and I feel I owe
11 a duty to the Commission to tell you our feelings on
12 it.

13 Many of us, due to the scheduling set out
14 by the Commission have made certain arrangements for
15 October 25th and prior to November 7th. In other
16 words, we have assumed the hearings were going to
17 adjourn on October 27th, and that we would not be
18 needed back here until November the 7th. I understand
19 my learned friend, Mr. Frawley, will be unable to
20 be here next week, and Mr. Brazier, and myself,
21 because of prior commitments.

22 The material of Mr. Edsforth is indeed
23 important, and he has given us a considerable amount
24 of data today. I would not be prepared to cross-
25 examine Mr. Edsforth immediately, and I was wondering,
26 in view of the fact that commencing November 14th
27 there is this cost conference in Montreal whether
28 it would be possible for the Commission at that
29 time to conduct the cross-examination of Mr. Edsforth,
30 and perhaps hear in chief and cross-examine the



1
2 witnesses for the Canadian National.

3 I say that with the hope the Commission
4 would perhaps consider it this evening, and because
5 it is just impossible for some of us to be here due
6 to prior commitments.

7 THE CHAIRMAN: Mr. Mauro, naturally we
8 think there is nothing more important in Canada than
9 this Commission, and we are trying to get on with
10 the job. We have now had 109 days of hearings.
11 However, I think we can discuss this further tomorrow
12 morning.

13 MR. FRAWLEY: Mr. Chairman, I wanted to
14 speak to Mr. Mauro's motion. As Mr. Mauro has said,
15 I was told that the Commission would rise on the
16 28th of October, tomorrow, and sit again on the 7th
17 of November for the cost experts, and therefore that
18 next week would be free. On the basis of that I
19 have received instructions to attend a constitutional
20 conference next week, and I must be there because in
21 view of the fact I advised them in Edmonton I would
22 be free as far as the sittings of this Commission were
23 concerned, I have received definite instructions.

24 THE CHAIRMAN: Is the meeting in Edmonton?

25 MR. FRAWLEY: The conference is in Ottawa
26 commencing Tuesday, so that I could not be here from
27 Tuesday on, and I do not know how long that conference
28 will last. It will take Tuesday and Wednesday and
29 probably Thursday. So much for that.

30 Then, I am also asking the Commission, as



1
2 far as I am concerned, for a deferment of my cross-
3 examination of Mr. Edsforth in view of the attack
4 he has made on Dr. Little's brief and Dr. Roberts'
5 brief and a few minor complaints with respect to Dr.
6 Ernest Williams' brief, and I am therefore asking for
7 that, and for that reason I support my friend Mr.
8 Mauro when he asks that the cross-examination of Mr.
9 Edsforth be deferred -- as far as I am concerned, at
10 least -- and apparently for Mr. Mauro also -- until
11 the 14th of November.

12 MR. BRAZIER: Mr. Chairman, I should also
13 advise the Commission I am not going to be able to
14 be here after this evening and during next week. I
15 may be in a slightly different position from Mr. Mauro
16 and Mr. Frawley; I will arrange for Mr. Blair to
17 attend in my place if it is necessary to cross-examine
18 any of the witnesses next week. However, I was very
19 much in the same position; following the previous
20 practice of the Commission, that they had fixed dates
21 and then had adjourned at the end of the sittings, I
22 made certain commitments for next week which I cannot
23 avoid now.

24 MR. CARTER: As far as I am concerned, Mr.
25 Chairman, I can meet the Commission's convenience and
26 that of my learned friends.

27 MR. SMITH: I am in the same position, Mr.
28 Chairman.

29 MR. McDONALD: Mr. Chairman, I would be very
30 glad to accommodate counsel who have spoken, but we



1
2 must take into consideration the fact we also have
3 officers of the Canadian National here who are planning
4 on going on next week. They have their assistants
5 with them; they have changed many of their commitments
6 so that they will be available to give evidence, and
7 we understood the Commission was going to continue
8 this sitting to finish up the railways' evidence, and
9 that is our position.

10 MR. SINCLAIR: Mr. Chairman, my position as
11 to what should be done in regard to the orderly
12 procedure of this Commission is too well known for me
13 to need to repeat it at this time. I have no idea,
14 and Mr. Edsforth would have no idea, without making
15 checks to see, whether he would be able to be back
16 here. At this moment I cannot say. Certainly, Mr.
17 Emerson also is here, and both of these men should
18 be considered, I think. I do understand the position
19 of my three friends. It may be very difficult for
20 them to do anything about commitments that are set
21 down, but it equally may be impossible, or relatively
22 impossible for some other people to change commitments.
23 This is too bad it has developed this way, sir, because
24 it was just the other night that I asked if this might
25 happen and when the suggestions were made that we
26 would operate in a certain way, in the light of that,
27 as I have tried to do throughout these things, I
28 assured the people I was calling that they could make
29 their commitments in the light of those directions.

30 We are in the Commission's hands, and we will



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Emerson, dir.
(Sinclair)

18281

1
2 carry out its instructions to the best of our ability.
3 We recognize difficulties of counsel who are from
4 distant places, and particularly those who have a
5 number of clients who must be looked after.

6 THE CHAIRMAN: Well, we will consider Mr.
7 Mauro's motion.
8

9 --- Adjournment --
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Hon. C. P. McTaggart

ROYAL COMMISSION

ON

TRANSPORTATION

HEARINGS

HELD AT

OTTAWA

VOLUME No.:

110

DATE:

26 Oct. 1960

OFFICIAL REPORTERS

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I N D E X

Page No.

EMERSON, R.A.

Direct examination

By Mr. Sinclair (resumed) 18284

Cross-examination

By Mr. Cooper 18309

By Mr. Smith 18358

By Mr. Carter 18364

E X H I B I T S

173 Canadian Pacific Railway Plant, 18299
selected statistics similar
to Table 13 in Manitoba sub-
mission.

174 Canadian Pacific Railway 18302
Selected Operating Statistics
similar to Table 14 in
Manitoba submission.

176 Document entitled "Canadian 18308
Pacific Railway: per freight
train: similar to table 16
in Manitoba submission.

175 Document entitled "Canadian 18308
Pacific Railway: similar to
table 15 in Manitoba submission.



ERRATA

Volume 110

<u>Page</u>	<u>Line</u>	
18286	6	Change "fazed" to "phased"
	27	Change "well, of course, maybe the results" to read "will, of course, improve the results"
	28	There should be a period after the word "eliminated" instead of a comma
18291	27	Change "including" to read "excluding"
18295	2	Change "Information issued" to read "Information (1959) issued"
18296	23	Change "/61.6" to read "-7.1"
18310	29	Change "the" to read "per"
18313	28	Change "1957" to "1947"
18316	2	Change "car" to read "power"
18317	4	Change "semi" to read "steam"
18319	10	Change "base" to read "basic"
18329	24	Change "unorganized" to read "unauthorized"
18342	10	Change "class" to read "case"
18343	23	Change "the" to read "a"
18345	16	Change "the" to read "our"
18347	26	Change "run" to read "line"
18348	12	Change "support" to read "sap off"
18349	8	Change "actual" to "national"
18364	24	Change "or" to "is"
18370	25	Change "Leaseholds" to "Lougheads"
18371	22	Change "a prior post-rail haul" to "a prior or post-rail haul"
18373	30	Change "providing" to "Smith"
18395	8	Change "going" to "willing"



ROYAL COMMISSION ON TRANSPORTATION

Proceedings of hearings held
in the Court Room, Board of
Transport Commissioners
Offices, Ottawa, Ontario, on
the 28th day of October, 1960.

COMMISSION

Mr. M. A. MacPherson, Q.C.	Chairman
Mr. H. Anscomb	Member
Mr. A. H. Balch	Member
Mr. R. Gobeil	Member
Mr. H. A. Mann	Member
Mr. A. Platt	Member

COMMISSION COUNSEL

Mr. A. G. Cooper, Q.C.	
Mr. G. S. Cumming	
Mr. H. W. Ellicott	Adviser
Mr. F. W. Anderson	Secretary
Major N. Lafrance	Assistant Secretary



Ottawa, Ontario,
Friday,
October 28, 1960.

--- On commencing at 10:00 a.m.

THE CHAIRMAN: Order, please.

Mr. Mauro, referring to your motion yesterday we are very sorry that we have to sit next week, but we are behind time in our schedule, you understand, and we have a time table we are trying to keep. Now, we have tried to solve your difficulty by arranging that Mr. Edsforth be the first witness on November 7th. Will that be agreeable?

MR. MAURO: Yes, Mr. Chairman.

THE CHAIRMAN: Could that be arranged?

MR. SINCLAIR: Yes, sir. I would suggest -- I know that my friend, Mr. Brazier, is not here, and some of my other friends, and the suggestion I would make would be that Mr. Emerson be available on the 7th to be immediately followed by Mr. Edsforth on the 7th, because some of the people who will want to ask Mr. Emerson questions are not here, and then, also, we were going to put in some calculations involving tables filed with this Commission by my friend, Mr. Mauro, in regard to clause "C" of the Order in Council which he has not seen yet. So, we would bring Mr. Emerson back on the 7th and Mr. Edsforth, and clean the two of them up, and this would give everybody an opportunity.



1
2 THE CHAIRMAN: That should be fair to all
3 counsel.

4 MR. MAURO: Anything is fine with me, Mr.
5 Chairman.

6 MR. SINCLAIR: That would enable Mr. Brazier
7 to do what his instructions were in regard to both of
8 these witnesses, and Mr. Frawley, also.

9 THE CHAIRMAN: Fine.

10 MR. SINCLAIR: Q. Now, Mr. Emerson, in the
11 submission of the province of Manitoba as advanced to
12 this Commission in two parts, partly by Prime Minister
13 Roblin, when the Commission was in Winnipeg, and
14 expanded and developed by Mr. Stechishin when the
15 Commission held its hearings here recently:

16 There was certain evidence advanced
17 concerning clause "C" of the Order in Council setting
18 up this Commission, and first I would like to turn to
19 page 15751 of volume 92, and I want to read two small
20 parts from that page.

21 This is Mr. Stechishin speaking on behalf
22 of Messrs. Stechishin, Rutledge, Trachtenberg and Mr.
23 Mauro examining.

24 Mr. Stechishin on behalf of the province,
25 and I am quoting from page 15751 of volume 92:

26 "Since the railways have one major source
27 of revenue, namely revenue from rail freight
28 operations, any deficit resulting from the
29 operation of the railway, must be made up
30 from this profitable service of the railway



1
2 company. In other words, the losses
3 occasioned by any deficit operation become
4 a burden on the freight shipper."

5 And later on the same page, he said:

6 "Further, the Canadian Pacific Railway and
7 the Canadian National Railways now propose a
8 material departure from this prevailing
9 concept."

10 I will just hand you that, and ask you to give
11 the Commission your comment on it, please.

12 A. Yes, Mr. Sinclair.

13 The attitude of Canadian Pacific towards loss
14 operations is that they should either be corrected or
15 eliminated. In the passenger deficit area, management
16 is able to take corrective action and is doing so.

17 In the case of grain, however, Canadian
18 Pacific is unable to take corrective action because of
19 the statutory aspect of the rates applicable to this
20 class of traffic.

21 Q. Yes. Now, on page 15752 of volume 92,
22 Manitoba -- again, Mr. Stechishin speaking; Mr. Mauro
23 examining -- and I will read, quoting again from volume
24 92, page 15752:

25 "On the other hand, if the railways exercising
26 their managerial discretion wish to maintain
27 a deficit service, not found to be in the
28 national interest, then we suggest that the
29 cost of providing the particular service
30 should be removed from the classification of



1
2 accounts in the fixing of freight rate levels."

3 What is your comment on that, please?

4 A. Canadian Pacific does not wish to
5 maintain any deficit operation. During the transition
6 period, while unprofitable operations are being phased
7 out, the cost must be carried by those operations which
8 are profitable. Years ago, passenger service was
9 profitable and the freight shipper benefitted from
10 passenger operations, and it does not seem inequitable
11 now that until such time as we are able to eliminate
12 passenger deficit, they should be considered in relation
13 to the railway operations as a whole.

14 THE CHAIRMAN: How long do you think the
15 transition period you refer to will last?

16 THE WITNESS: Well, Mr. Chairman, it is
17 difficult to put this with precision, but I would hope
18 that this might be done, say, within five years.

19 THE CHAIRMAN: That is your plan?

20 THE WITNESS: That is our appraisal; my
21 appraisal of the situation as it exists at the present
22 time.

23 COMMISSIONER BALCH: Is there a possibility
24 after five years that the railways would probably be
25 on a make-money basis, will I put it that way?

26 THE WITNESS: Well, the elimination of
27 deficit operations, well, of course, may be the results
28 of Canadian Pacific -- to the extent that losses are
29 eliminated, Canadian Pacific, of course, as you know,
30 Mr. Commissioner Balch, has not been in a deficit



position.

It has always met its fixed charges, paid its taxes, and had a net. Now, after this five year period, I would expect that we would still be in the passenger business, in the commuter area, in respect of short haul inter-city runs, and perhaps in respect of overnight services between major centers.

MR. SINCLAIR: Q. In answer to the Chairman, you said your appraisal that the period would be five years, although you said it was difficult to be precise.

A. Yes.

Q. Would it be or would it not be correct to describe this five years as your target date?

A. Yes.

THE CHAIRMAN: And it would be gradual?

THE WITNESS: It would be gradual, yes, sir.

COMMISSIONER MANN: It could not be more than ten years, could it?

THE WITNESS: No, I would not think it could be than ten years, no, Mr. Commissioner Mann.

COMMISSIONER MANN: Thank you.

MR. SINCLAIR: Q. Now, Mr. Emerson, you mentioned commuter services, among one of the areas that you would feel that the company could continue to operate passenger service on a profitable basis. This was also mentioned by Manitoba at page 15752 of volume 92, and I draw your attention to this particular extract:

"The province of Manitoba would direct your



1
2 attention to those items which we submit are
3 most burdensome to the freight shipper,
4 namely, passenger and related services,
5 commuter services and branch line operations."

6 A. Yes.

7 Q. Now, dealing with commuter -- we have
8 spoken of the passenger -- and your evidence that is
9 now before this Commission deals very thoroughly with
10 branch lines, what about commuter, in view of the fact
11 that it has specifically been raised here in regard to
12 this matter?

13 A. As the Commission may know, we have been
14 taking action in respect of our commuter services. On
15 the one hand, rates have been increased, and some
16 figures which I have had prepared indicate that in the
17 first eight months of 1960, as compared with the
18 corresponding period of last year, we have experienced
19 an increase in revenue of about 5%. On the other hand,
20 we have been adjusting commuter service in accordance
21 with demand and taking into account both of these
22 factors and the change-over from steam to diesel
23 operation, in my view commuter service is not now a
24 burden.

25 Q. In the commuter service on Canadian
26 Pacific, Mr. Emerson, is it all provided by conventional
27 passenger trains?

28 A. No, it is not, Mr. Sinclair. We have
29 R.D.C. equipment also in commuter service.

30 Q. And on Canadian Pacific R.D.C. equipment



(Sinclair)

1
2 operates, this Commission has been told, with less
3 crew than does a conventional train when it is
4 operating in short multiples?

5 A. Yes, the crew on a conventional train
6 is generally five men, although there is provision for
7 an extra train man over, I think it is, eight cars.
8 But commuter equipment operates with three or four men,
9 or sometimes two men, depending on the number of units
10 in the train.

11 THE CHAIRMAN: Have you much commuter service
12 outside of Montreal in Canada?

13 THE WITNESS: No, sir.

14 MR. SINCLAIR: Q. Now, I wish to refer to
15 volume 92, at page 15766 and following, and I think
16 the most expeditious way of putting this before you
17 is to read a little longer extract from the transcript,
18 again Mr. Stechishin speaking on behalf of the
19 Manitoba group, and under examination by my friend,
20 Mr. Mauro.

21 Here, Manitoba set out clause "C" of the
22 Order in Council, and then said:

23 "168. At the regional hearings in Winnipeg
24 on February 8, 1960, the Premier of Manitoba,
25 in presenting the submission of the province
26 under the heading stated as follows:

27 '... It is not the purpose of the
28 government of Manitoba critically to direct
29 the railways as to how they should operate
30 their systems. Our intention rather is to



suggest that the existing situation should be analysed constructively, to see whether in fact the direction which is being followed by the railways might be varied or improved with a view to achieving a higher degree of efficiency.' (Daily transcript, vol. 29, February 8, 1960, page 4262.).

167. The Premier went on to state that the province of Manitoba was particularly interested in this matter since the freight shipper had been required to pay for the very large expenditures made by the railways in recent years for plant modernization. Reference was made to the material submitted to the Governor-in-Council by the eight provinces in their appeal of May, 1953. At that time the provinces referred to the very heavy outlays by the railways in recent years for maintenance of way, equipment, etc. which the railways alleged were required for improvement and modernization of their plant. These expenditures to and since 1953 total as follows in millions of dollars:

<u>1946</u>	<u>1948</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>
\$254.777	\$326.178	\$420.766	\$376.219	\$383.928
<u>1956</u>	<u>1957</u>	<u>1958</u>		
\$430,286	\$417.786	\$404.545.		

The aggregate of these expenditures for



1
2 the period 1953 to 1958 amounted to
3 \$2,433,530,000.

4 168. The province of Manitoba feels that it
5 is most important that expenditures totalling
6 \$2,433,530,000 over a six year period require
7 close analysis since, as previously stated,
8 under the present 'requirements formula' it
9 is the freight shipper who must bear the
10 burden of these expenditures."

11 Now, Mr. Emerson, having that before you,
12 would you please give the Commission your comments in
13 regard to these expenditures and what they entail and
14 what investigation has been made of them and matters of
15 that kind by the Board?

16 A. That quotation, Mr. Sinclair, rather
17 carries the implication that expenditures made for the
18 improvement and modernization of the railway by
19 Canadian Pacific have been charged to expenses instead
20 of capital.

21 Now, in this matter we are, of course,
22 governed by the uniform classification of accounts
23 which is prescribed and policed by the Board of
24 Transport Commissioners. The figures reported in the
25 Manitoba submission for the years 1946-1948 and for the
26 years 1953-1958 are Canadian Pacific operating expenses,
27 including taxes and rents.

28 These figures represent the cost of running
29 the railway from day to day and are entirely distinct
30 and separate from expenditures for modernization which



1
2 are charged to capital account.

3 Q. You say these are the day to day
4 expenses of operating the railway over these many years.
5 And are these the type of figures that you on a number
6 of occasions have dealt with in submissions made by
7 Canadian Pacific to the Board of Transport Commissioners
8 and which were looked into by them to see whether the
9 expenses of the railway in the various years since 1946
10 have been properly and reasonably expended?

11 A. Yes, these are the figures of that type.

12 MR. MAURO: Mr. Sinclair, is Mr. Emerson
13 suggesting that these figures were not -- this money
14 was not expended for the improvement and modernization
15 of plant? I do not wish to interrupt your examination,
16 Mr. Sinclair.

17 MR. SINCLAIR: That is quite all right.

18 THE WITNESS: These figures were expenses,
19 were costs incurred and charged to operating expenses
20 for the running of the railway.

21 MR. SINCLAIR: Q. Well, the question my
22 friend raises, Mr. Emerson, is are they related to
23 improvement and modernization of the railway plant?
24 In other words, do they include monies paid for
25 diesels?

26 A. Of course not. Not in any sense.

27 Q. For new yards? New sidings?

28 A. Only to the extent, a very minor
29 extent, in relation to your last question, that
30 expenditures for new yards or extension of sidings



1
2 would entail the removal or re-location of existing
3 trackage and that type of thing.

4 Q. But, for instance the Canadian Pacific
5 in the post-war years have increased their box car
6 fleet, have improved its carrying capacity, and there
7 are new box cars or new gondola cars, or new types of
8 freight equipment. Would they be included in this
9 equipment?
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2 A. Oh, no, indeed, expenses of that type
3 are invariably charged to capital.

4 Q. Another example, C.T.C., where you have
5 put it in?

6 A. No, the signals are charged to capital,
7 it is all carefully prescribed in the uniform classifi-
8 cation of accounts and followed.

9 Q. Now, Volume 92, at page 15768, just lower
10 down on the page from where I was reading previously
11 and Mr. Stechishin under questioning by Mr. Mauro again
12 said, dealing with the efficiency of Canadian railways:

13 -----
14 "We have used in this context ---"

15 That is the context of measuring the efficiencies:

16 ". . . those generally adopted in measuring
17 the efficiency of Class I railroads in the
18 United States."

19 Do you see that, Mr. Emerson, just at the bottom of
20 the page?

21 A. Yes. The statement made by Mr.
22 Stechishin does not include what we consider to be the
23 most comprehensive indicators of operating efficiency.
24 Such significant indicators are average freight train
25 speed, average freight train weight and gross ton miles
26 per train hour which are shown on Exhibits 165, 166
27 and 167.

28 Q. Which you filed yesterday?

29 A. Yes. These indicators are widely used
30 in the railway industry as a measure of performance.
As an example, a booklet entitled "Year Book of Railroad



1
2 Information" issued by the Eastern Railroads Presidents
3 Conference of the United States. It shows in this
4 booklet that these three indicators are referred to on
5 page 38 as important freight train averages.

6 Q. Yes, Mr. Emerson. Now, have you consid-
7 ered, and I perhaps should draw your attention to the
8 transcript here before asking you this but the Commission
9 will recollect Mr. Stechishin went on in his submission
10 on behalf of Manitoba to deal with certain statistical
11 methods of efficiency that he proposed. I would
12 direct your attention to Volume 92, page 15771 and over
13 onto 15772. Here the Commission will find a table
14 and I would ask that the table be taken into the
15 record again.

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TABLE 13

Railway Plant, Selected Statistics

	1949	1958	Per Cent Change
<u>Miles of Track</u>			
1. First Main Track	42,978	44,125	/ 2.7
2. Yard track and Sidings	10,437	11,534	/10.6
3. Total all tracks	57,834	59,319	/ 2.6
<u>Rolling Stock</u>			
1. Freight Cars in Service	177,614	196,893	/10.9
2. Freight Car Capacity (Tons)	8,052,188	9,118,276	/24.2
3. Passenger Cars in Service	6,224	5,733	- 7.9
4. Locomotives in service	4,627	4,823	- 4.2
<u>Employees</u>			
1. General	28,835	32,346	/20.5
2. Way and Structures	39,521	37,010	- 6.4
3. Equipment	47,192	39,373	-16.6
4. Transportation	59,564	52,150	-12.4
5. Total	173,112	160,879	/61.6
Total Investment (,000)	\$3,702,768	\$5,931,972	/61.6

Then follows some context by Mr. Stechishin
saying this:

"Table 13 indicates that in terms of track
miles --"

I might say that every time I say "track" I



1
2 finish up with "traffic" in the record. Yesterday I
3 noticed in the transcript that Mr. Emerson had something
4 to do with traffic supervision and in another number
5 of others where I have put questions as to per miles
6 of traffic it should be track.

7 THE CHAIRMAN: That is your Highland accent.

8 MR. SINCLAIR: Q. If that is all I have of
9 it it is not very good. Back to page 15772:

10 "Table 13 indicates that in terms of
11 track miles, railway plant has experienced
12 only a modest overall increase (2.7 per
13 cent) although a substantial increase
14 (10.6 per cent) occurred in yard and
15 siding track mileage. With respect to
16 rolling stock, it is noted that while the
17 number of freight cars in service has
18 increased by 11 per cent, the total
19 capacity of these cars has increased by 24
20 per cent. The decline in number of
21 passenger cars would seem to reflect the
22 decline in passenger traffic. The sub-
23 stantial increase, (21 per cent), in the
24 number of employees in the general cate-
25 gory (executives, clerks and stenographers)
26 which is contrary to the trend in all other
27 categories would appear to reflect the
28 tendency experienced by most industries in
29 Canada during this period. The increase of
30 61.6 per cent in investment is greater than



1
2 the increase in any other index shown for
3 the ten year period."

4 The Commission will recollect that I did cross-examine
5 in some regard on these figures but I will not make
6 reference to that. I would ask Mr. Emerson now --
7 I will not read it except to draw the attention of
8 the Commission to where my cross-examination is to be
9 found and it is in Volume 96, pages 16327 through
10 16330. Now, having before you Table 13 and the
11 comment, have you read the whole matter of cross-
12 examination of Mr. Stechishin on this?

13 A. Yes, I have read these, it was some
14 little time ago but I have a general recollection of it.
15 Referring to Table 13 the employees' classes as shown
16 are not on a comparable basis between the years 1949
17 and 1958. This arose from the issuance of a new
18 classification for railway employees by the Board of
19 Transport Commissioners and the Dominion Bureau of
20 Statistics effective January 1, 1956. The most
21 important change affecting this category was transfer
22 of inspectors and sergeants, police constables and
23 policemen from transportation to general. It is not
24 possible to restate 1958 to a strictly comparable basis
25 with 1949 because of other changes made within the
26 classes.

27 Q. By the classes you mean way and structures
28 versus equipment or way and structions versus main-
29 tenance?

30 A. Yes, the classes of employees. In the



1
2 light of this, the comparisons made by Mr. Stechishin
3 are not valid.

4 Q. Now, you have prepared or had prepared
5 under your direction a table which I show to you en-
6 titled "Canadian Pacific Railway Railway Plant Selected
7 Statistics similar to Table 13 in Manitoba Submission."

8 A. Yes, I have.

9 Q. I would ask the Commission to allow me
10 to file this as Exhibit 173.

11 ---EXHIBIT NO. 173: Canadian Pacific Railway Plant,
12 selected statistics similar
13 to Table 13 in Manitoba sub-
14 mission.

15 Q. Are there any points in particular from
16 this Exhibit 173 that you wish to draw to the attention
17 of the Commission?

18 A. The principal difference between Exhibit
19 173 and Table 13 which is contained at page 15771 of the
20 transcript is the fact that the former refers to
21 Canadian Pacific and the latter, as I understand it,
22 covers all railways in Canada. They are both on the
23 same basis, therefore, Exhibit 173 is subject to the
24 same disabilities that I mentioned earlier in respect
25 of Table 13.

26 Q. That is the transfer of employees and
27 the changes within the classes?

28 A. Yes.

29 Q. Now, Volume 92 again, this matter of
30 statistics as introduced by Mr. Stechishin at page



15773 and 15774. There is introduced Table 14 by Mr. Stechishin again "Selected Operating Statistics".

TABLE 14
Selected Operating Statistics

	1949	1953	Per Cent Change
1. Revenue Tons carries (,000)	162,292	174,200	+ 7.3
2. Revenue tons miles (,000)	56,333,231	66,356,829	+17.8
3. Revenue Passenger Miles (,000)	3,193,174	2,485,861	-22.2
4. Revenue Freight Carloads	5,980,513	5,584,013	- 6.6
5. Loaded Car Miles (,000)	2,076,081	2,127,078	+ 2.5
6. Empty car Miles (,000)	934,222	1,128,340	+20.8
7. Total car miles (,000)	3,107,776	3,328,742	+ 7.1
8. Road Locomotive Miles (Freight)	89,005,127	71,970,306	-19.1
9. Switching Loco- motive Miles (Freight)	35,619,741	32,765,775	- 8.0
10. Freight Train Miles	81,648,053	68,655,553	-16.0
11. Passenger Train Miles	45,680,009	40,545,723	-11.2

MR. SINCLAIR: Q. On page 15774 Mr. Stechishin, on behalf of the Manitoba team, under direct questioning by Mr. Mauro said:

"Table 14 indicates that the revenue tons carried increased during the period by 7.3



1
2 per cent. Revenue ton miles shows a
3 greater increase at 18 per cent. Revenue
4 passenger miles shows a substantial decline
5 of 22 per cent. The number of carloads
6 has declined slightly despite the increase
7 in tonnage. While loaded car miles only
8 increased slightly, a substantial increase
9 (21 per cent) was experienced in empty
10 car miles. Locomotive miles, both road
11 and switching, showed decreases as did
12 freight train miles and passenger train
13 miles."

14 Then, further, if you just cast your eyes down I want
15 to draw one other part of the transcript to your
16 attention.

17 A. Yes.

18 Q. That is on page 16330 through 16334
19 where there was during my cross-examination certain
20 information developed from Mr. Stechishin and also
21 Commissioner Mann asked some questions. You have
22 reviewed that?

23 A. Yes.

24 Q. I do not think I need read this to the
25 Commission but it is there. Now, what is your com-
26 ment in respect to the material that I have placed
27 before you and read into the record, that is Table 14
28 and Mr. Stechishin's comment thereon. What is your
29 comment?

30 A. To put this in in proper context and



1
2 using figures for Canadian Pacific the total freight
3 car miles in the year 1949 were 1,284,000,000, rounded
4 out.

5 Q. I am sorry, but perhaps the best way
6 for us to do this so it will be before the Commission
7 would be to file the statement you have prepared. You
8 have prepared another table using Canadian Pacific
9 figures and making certain other adjustments?

10 A. Yes.

11 Q. I put that before you and it is entitled
12 "Canadian Pacific Railway Selected Operating Statistics
13 similar to Table 14 in Manitoba Submission."

14 ---EXHIBIT NO. 174: Canadian Pacific Railway
15 Selected Operating Statistics
16 similar to Table 14 in
Manitoba Submission.

17 Q. Now, looking at Exhibit 174 that we have
18 just marked, that was prepared under your direction?

19 A. Yes, it was.

20 Q. And would you just in the light of that
21 and the extract I gave you of Mr. Stechishin's testimony
22 give the Commission your comment. I had interrupted
23 you so perhaps you had better start again.

24 A. Yes, the figures I would like to use are
25 not those related to Exhibit 174 for a reason that I
26 will explain. I want to deal with total car miles and
27 the figure on Exhibit 174 includes cabooses. Now,
28 eliminating cabooses which are not pertinent to the
29 present discussion, total car miles, freight car miles
30 of Canadian Pacific in the year 1949 were 1,284,000,000



1
2 rounded out, of which 414,000,000, rounded, were empty
3 miles -- 32.2 per cent of the total. In 1958 total
4 car miles, again on the same basis ---

5 Q. That is west of Fort William?

6 A. No, it is a system figure, total freight
7 car miles in 1958 were 1,298,000,000 of which 422,000,000
8 were empty or 34.1 per cent of the total. In other
9 words, between 1949 and 1958 there was an increase of
10 1.9 per cent in empty car miles, empty freight car
11 miles as related to total freight car miles. For
12 an understanding of the situation one must have know-
13 ledge of traffic differences between the two years.
14 In the year 1949 we lost to United States railroads
15 through the western gateways a net of some 7,942
16 cars, that represents the difference between the cars
17 that were loaded in Canada and interchanged or moved
18 to points in the United States over the number of
19 similar movement taking place in the opposite direc-
20 tion in western Canada and that figure, to repeat, was
21 7,942 cars. Now, in 1958 the comparable figure had
22 jumped to 14,354 cars.



1
2 The difference of over 6,000 cars 'has to be met by
3 moving empties from eastern Canada to the west, and
4 this would entail a haul of probably 1,600 miles per
5 car, so that it naturally increased very materially
6 our empty car miles in that year.

7 In addition to that element it must be borne
8 in mind that specialized equipment such as covered
9 hopper cars and such things were in more prevalent
10 use in 1958 than in 1949, and those cars generally
11 move empty from point of unloading back to the point
12 of loading.

13 Perhaps this whole matter illustrates the
14 importance of a knowledge of the background of what
15 underlies statistics before they are used. For a
16 proper interpretation of statistics one must have some
17 knowledge of the relationship between the different
18 elements employed, the factors at play which affect
19 the figures in that relationship and, of course, they
20 have to be exercised with judgment.

21 Q. Is there any particular comment you
22 want to make on exhibit 174, or do you think it may
23 be looked at as Canadian Pacific figures?

24 A. The only comment which I think exhibit
25 174 requires is to say this is prepared for Canadian
26 Pacific and that it is similar to table 14 in the
27 Manitoba submission which, as I understand it, relates
28 to all railways in Canada, and it is prepared on the
29 same basis and subject, of course, to the interpretations
30 of the factors underlying it which I have just mentioned.



1
2 Q. And having particular relationship to
3 the cars on line aspect that you talked about?

4 A. To the ratio of the movement of empty
5 cars to total car miles.

6 Q. Yes. Now, in volume 92 at page 15779
7 is table 17. I would draw your attention at that
8 point to table 17 and the comment at the end of it by
9 Mr. Stechishin. I will read:

10 "Table 17 indicates that the number of tons
11 per car mile has increased by nearly 10 per
12 cent but that the total tons per year per
13 car in service has declined by 3.2 per
14 cent; however, the annual ton miles per car
15 does show a small increase. The reduction
16 in annual tons per car can be attributed to
17 the increase in the turn around time. The
18 average turn around time, which is the time
19 from one load to the next load, has
20 increased by two full days during the ten-
21 year period resulting in a reduction of 16
22 per cent in the annual loads per car. The
23 average freight car only travelled 48 miles
24 per day in 1949 and in 1958 this had been
25 reduced to some 46 miles per day. Miles of
26 switching per carload has not shown a
27 significant change during the period.

28 The tractive power per locomotive
29 has increased by 24 per cent but the annual ton
30 miles per locomotive has only increased by
13 per cent. A combination of these two



1
2 statistics reveals that the ton miles per
3 pound of tractive power has declined by 9
4 per cent. The substantial increase in tractive
5 power without a corresponding increase in
6 total ton miles offered, or a reduction in
7 the number of locomotives in service could
8 only result in an increase in the unused
9 capacity of each locomotive. This is
10 indicated by the decline of 18 per cent in
11 the number of train miles per locomotive
12 day."

13 I had the opportunity of asking Mr.
14 Stechishin a number of questions in regard to that
15 matter which I will draw to the attention of the
16 Commission and my friends which I set out in volume
17 96 at pages 16338 and 16339, but I do not think I need
18 refer to them now. I would ask you, having that
19 before you -- that is, table 17 of the Manitoba
20 submission and Mr. Stechishin's comment on behalf
21 of the Manitoba team -- and ask you to deal with that,
22 Mr. Emerson, please?

23 A. It is improper to use total cars in
24 the inventory to make a comparison of efficiency or
25 equipment utalization such as items 2, 3 and 4 --
26 perhaps I should say, lines 2, 3 and 4 -- purport to
27 indicate.

28 Q. Would this be a place where it would be
29 of advantage to the Commission to have your
30 recalculated table before them, do you think?



1
2 A. No, I am afraid we do not have the
3 information to make that recalculation.

4 Q. All right.

5 A. But it is incorrect to draw these
6 conclusions as Mr. Stechishin has done. The number
7 of cars used in making comparisons of this kind should
8 be associated with the traffic statistics. The proper
9 figure would be the number of cars on line which is
10 different from the number of cars in the inventory,
11 reflecting the number of cars which are off line on
12 other railways and the number of other railways' cars
13 which, of course, are on Canadian Pacific lines. The
14 disability of using cars in the inventory, in short,
15 is the fact that Canadian railways use cars belonging
16 to other railways and vice versa. In 1949, Canadian
17 Pacific was using a much greater proportion of foreign-
18 owned cars on line than in 1958, and a smaller
19 proportion of Canadian Pacific cars were on foreign
20 lines in 1949 than in 1958.

21 Q. Yes. Now, you said that these figures
22 were not available so you have not been able to
23 recalculate them, but you have restated tables 15,
24 16 and 17 of Mr. Stechishin's material?

25 A. Yes.

26 Q. Why have you restated them -- to put
27 them on a Canadian Pacific basis?

28 A. Yes, the difference between Canadian
29 Pacific and all lines in Canada.

30 Q. Pardon me, I said 15, 16 and 17. You



1
2 have explained the situation with regard to table 17,
3 and you have recalculated tables 15 and 16; is that
4 correct?

5 A. I am sorry; you are correct.

6 MR. SINCLAIR: Maybe I could file these now.

7
8 --- EXHIBIT 175:

9 Document entitled "Canadian
10 Pacific Railway: similar to
11 table 15 in Manitoba submission".

12
13 --- EXHIBIT 176:

14 Document entitled "Canadian
15 Pacific Railway: per freight
16 train: similar to table 16
17 in Manitoba submission".

18 Q. Have you any special comment that you
19 wish to draw to the attention of the Commission with
20 respect to exhibits 175 and 176, please, Mr. Emerson?

21 A. Only to say that exhibits 175 and 176
22 pertain to Canadian Pacific solely whereas tables 15
23 and 16 in the Manitoba submission pertain to all
24 railways in Canada, as I understand it.

25 Q. Well, I think, Mr. Emerson, that we
26 could look at other statistical submissions made by
27 Manitoba in this area, but I think this is sufficient
28 to indicate the position of the company, and as it
29 approaches these statistical matters, and the necessity
30 of looking at it from the company, and also the bases
that Mr. Emerson stated were necessary to be kept in
mind in dealing with statistics.

THE CHAIRMAN: This is Mr. Emerson's
evidence and Mr. Mauro will have a chance to deal with



1
2 it.

3 MR. SINCLAIR: Oh, yes. I have not given
4 the documents to my friends until just this minute.

5 That concludes my examination of Mr.
6 Emerson and I would ask him to please answer my friends
7 with the understanding Mr. Emerson, as you heard when
8 we started proceedings this morning, that you will
9 return here on November the 7th to continue any
10 questioning that my friends may have or the Commission
11 may have, or including counsel who are unable to be
12 here today.

13 THE WITNESS: Yes, I understand that, Mr.
14 Sinclair.

15 CROSS-EXAMINATION BY MR. COOPER:
16

17 Q. Mr. Emerson, the first section of your
18 submission deals with economical and efficient
19 railway transportation and I have a few questions
20 which I should like to ask you arising out of that
21 section, but particularly that part of it which
22 relates to the future and which commences at page
23 30 and goes on to page 42.

24 The first section of your submission, as I
25 understand it, really consists of two parts: the first
26 is a narrative of what has been done up to date, and
27 the second, commencing at page 30 and going on to page
28 42, relates rather to the future and is directly
29 related to paragraph (c) of the Order in Council which
30 constitutes the terms of reference of this Commission,



1
2 namely, the possibilities of achieving more economical
3 and efficient railway transportation; that is correct?

4 A. That is correct, Mr. Cooper, in respect
5 of this matter.

6 Q. Yes. We will come later to the two
7 problems of branch lines and passenger train service.

8 A. Yes.

9 Q. On page 2 of your submission, Mr.
10 Emerson you referred to statement 900 which is now
11 exhibit 165. The second paragraph on that page
12 mentions that exhibit 165 shows for the years 1947
13 to 1959 the average weight of all freight trains
14 operated on the Canadian Pacific. The paragraph points
15 out that exhibit 165 shows that by the end of 1959
16 the weight of freight trains, average, measured in
17 gross tons had increased over 1947 by 32.6%. Do you
18 expect a further increase in this matter of weight?

19 A. Yes, Mr. Cooper. I expect some further
20 increase although it will not be as spectacular or
21 marked as in years past which are reflected in this
22 table and which was brought about largely as a result
23 of dieselization, because Canadian Pacific is now
24 fully dieselized. But, some increase, I think, is
25 bound to occur: for example, in very recent months
26 we have been experimenting with the use of five diesel
27 units on a freight train in British Columbia in place
28 of four used heretofore, with a corresponding increase
29 in tonnage the train handled.

30 Q. I direct your attention to the next



1
2 paragraph on page 2, statement 901 which is now
3 exhibit 166. That exhibit deals with the average speed
4 of all freight trains operated on Canadian Pacific for
5 the years 1947 to 1959, and you point out in your
6 submission that the exhibit shows that average freight
7 train speed on Canadian Pacific has increased by 24.7%
8 since 1947. I should like you to comment for the
9 benefit of the Commission on the possibility of further
10 increase in the average speed of all freight trains?

11 A. Yes, Mr. Cooper. In general, the same
12 comment as I gave in respect of freight trains' weight
13 would apply. In other words, I look for some increase
14 but not as spectacular or marked as the increase over
15 the years past because, again, as of this time we are
16 fully dieselized and the advantages -- the reduction
17 in running time that has been achieved from that cause
18 has been largely realized. We should get, and I expect
19 we will get, some improvement as the extent of signal
20 territory is increased, but it will not be as marked
21 and will not show up to the same degree as it has in
22 the past. It will be a gradual change.

23 Q. On page 3 you refer to statement 904,
24 now exhibit 169. In the last paragraph on that page
25 you state:

26 "This statement compares the index of
27 railway operating expenses per unit of
28 work performed (1,000 gross ton miles of
29 transportation service) with the indexes of
30 labour and material costs. From this



1
2 statement it will be seen that, whereas the
3 cost of labour has increased by 121% and
4 that of material by 54% since 1947, operating
5 expenses per 1,000 gross ton miles have been
6 held to an increase of 56%."

7 Do you expect to be able to hold or to
8 improve upon such a relationship of operating expenses
9 to cost of labour and materials in the foreseeable
10 future? I know it is difficult to forecast these
11 costs, but any assistance you could give the Commission
12 on this point I am sure they would be glad to have.

13 A. Well, in the first place, I think I
14 should say that we regard the fact that the increase
15 of operating expenses in the period 1959 over 1947 per
16 unit of traffic has been held to 56% in the face of a
17 rise in labour costs of 121%, a rise in material costs
18 of 54%, as a not inconsiderable achievement. It has
19 been, again, brought about by the factors I have
20 mentioned such as dieselization, which has been a very
21 major one, which again is largely completed and the
22 benefits of which we are largely now enjoying and
23 are so reflected in our accounts. As to the ability
24 to hold the rate and improve -- in other words, to
25 maintain the same relationship -- the 55 to 120, for
26 example -- in future, that poses many problems and
27 difficulties for the reason I mentioned. There is no
28 foreseeable avenue of improvement that is as
29 spectacular as dieselization has been in past years --
30 no single thing on the horizon of that magnitude.



1
2 On the other hand, as I have said later on,
3 I expect we will certainly be able to improve our
4 efficiency, and while it may not be reflected in lower
5 unit costs in the face of such inflation as increases
6 in wage rates as may take place, and increases in
7 other costs, I venture to hope that such increases in
8 the years to come will not be as marked as those in
9 the years past. I hope that is not being too
10 optomistic, but years gone by, of course, reflect the
11 advent of the 40 hour week, for example, which of
12 itself was virtually a 20% increase in wage rates.
13 They reflect marked improvements in vacations to the
14 point we have now vacations of up to four weeks for
15 employees with 35 years service. They reflect
16 statutory holidays, health and welfare and other things.
17 It is difficult to say, but I would hope we have reached
18 substantially the end of that part of the road, but
19 what may happen in respect of wage rates in itself,
20 of course, I cannot predict, but again, as a citizen,
21 I hope our inflation in the next period of time is not
22 going to be as marked as it has in the past.

23 Another element of expense which has markedly
24 increased and has had a considerable effect on
25 Canadian Pacific, although not directly reflected in
26 this statement, is the matter of taxes -- corporate
27 income taxes which bear on us very heavily, and in
28 1957 our corporate income tax rate was 35%; today it is
29 50%, which is a very substantial increase, and
30 operates with a heavy leverage against us.



1
2 So, for those reasons, as I say, I look
3 for improvements in efficiency, but they may be offset
4 by other factors, but whether we will be able to offset
5 them to quite the same extent as we have in the past
6 is a little difficult to say.
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2 THE CHAIRMAN: Order, please

3 MR. COOPER: Q. Mr. Emerson, you discussed
4 dieselization at pages 5, 6 and 7 of your brief. And,
5 in the first paragraph under that heading, these
6 words occur:

7 "The savings from diesel over steam operation,
8 after deducting additional depreciation but
9 making no allowance for additional cost of
10 money for the year 1959, are estimated to be
11 \$53 million."

12 Could you give the Commission an estimate of
13 the amount of the savings for the year 1959 if allowance
14 were made for additional cost of money for that year?

15 A. Not precisely, Mr. Cooper, because the
16 computation of the additional cost of money would
17 entail consideration of the source of funds, but
18 perhaps this will be helpful; that, at the end of the
19 year 1959 we had invested in diesel locomotives
20 approximately \$200,000,000.00. This is the locomotive
21 equipment alone. We have calculated that if we had
22 not gone to diesels but instead replaced them with
23 steam locomotives that our capital investment in that
24 equipment would have been approximately \$125,000,000.00.
25 So you have a difference of \$75,000,000.00.

26 Now, other aspects enter into the matter.
27 It would be a question of what we would have had to
28 spend on coaling and watering facilities as compared
29 with what we put in with diesel, servicing diesels,
30 facilities, shops, engine houses that are related to



1
2 the type of car used. They would be minor elements of
3 the situation, however, as compared to the cost of the
4 equipment itself.

5 Q. I turn now to page 32 of your brief
6 where you deal with the same subject "Dieselization",
7 and in the third paragraph on that page you state that
8 the scope for achievement of further economies in
9 transportation expenses from additional dieselization
10 is extremely limited except that savings due to the
11 elimination of firemen will continue to increase until
12 they are all removed from freight and yard service.
13 Do I understand from that paragraph that the only
14 further savings from dieselization that can be
15 expected are the presumably small amount that will
16 result from completion of the program? It is 97%
17 complete at the moment; is it not?
18
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2 A. Yes, 97 per cent was the figure for the
3 year 1959. We operated -- I should put it this way --
4 the last semi locomotive that we operated in revenue
5 service was on July 20 and we have not operated one
6 since.

7 MR. SINCLAIR: This year?

8 THE WITNESS: Yes, this year. Now, the
9 major saving, of course, reflected in the accounts
10 has been achieved. There may be minor changes and
11 I expect there will be in relation to the maintenance
12 practices, elimination of certain facilities and that
13 sort of thing, but the major saving is there.

14 MR. COOPER: Q. Your savings in the
15 future will be comparatively -- I don't want to use
16 the term "insignificant" but small?

17 A. In relation to what has already been
18 achieved, yes, from this source.

19 Q. Yes. I would like to draw your attention
20 to pages 123 and 124 of the study "Transportation in
21 Canada prepared for the Royal Commission on Canada's
22 Economic Prospects by J. C. Lessard under date of July
23 3, 1956, and I would like to obtain your comments on
24 what occurs there in the last paragraph on page 123
25 which reads:

26 "Judging from present indications, it
27 appears that equally significant changes
28 in motive power may be expected in the
29 future. Research is already under way
30 on a lightweight diesel locomotive in an



1
2 attempt to eliminate the heavy and expensive
3 motors and generators used on conventional
4 diesel electric locomotives. It is reported
5 that this lightweight locomotive will be little
6 more than half the weight of present-day diesels
7 and will be powered by a mechanical drive not
8 dissimilar to that which is being used by some
9 passenger cars. Its speed has been estimated
10 at 120 miles per hour when hauling a low-
11 slung lightweight passenger train. To what
12 extent such a locomotive would be adapted to
13 Canadian railway operations remains to be
14 seen. It appears, however, that its most
15 efficient use would be in high-density
16 passenger services. While today these
17 number only a few in Canada, the projected
18 increase in population might very well alter
19 the picture."

20 A. Yes. You will note that in this report
21 Mr. Lessard has said that the most efficient use of
22 this equipment would be in high density passenger
23 service. We do not envisage that that would comprise
24 any major part of our operation. This refers to
25 diesel hydraulic units of which we have a number, in
26 fact, the RDC equipment is basically this type. In
27 the locomotive field we have a number of smaller units
28 which are in use in switching service in some areas.
29 There is one feature of this which I think Mr. Lessard
30 recognizes but perhaps is not generally appreciated,



1
2 that reduction in weight of a locomotive per se is
3 not necessarily, in fact not generally, a desirable
4 thing because what a locomotive can haul is dependent
5 in large measure upon the weight of the driving wheels.
6 If you reduce the weight you reduce the tonnage it
7 can haul. In passenger service where that is not so
8 critical, of course, different conditions apply but
9 dealing with freight service which is our main activity
10 and base business, this would not be a desirable
11 objective.

12 Q. In the first full paragraph on page 124
13 of the report Mr. Lessard refers to the coal fired
14 gas turbine in these words:

15 "For the more distant future the coal-
16 fired gas-turbine may have possibilities.
17 It has been forecast by scientists that
18 within a very few years the gas-turbine
19 engine will be an actuality."

20 Would you care to comment on that section of that
21 paragraph from the Lessard report?

22 A. Yes, I would comment on that. These
23 things also apply to the expectations which Mr. Lessard
24 expresses in regard to diesel hydraulics. I would
25 think his expectations or hopes, perhaps, have not
26 so far been borne out. So far no practical coal-
27 fired or gas turbine locomotive has been developed for
28 use.

29 Q. Is work still proceeding on that
30 project?



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2 A. It is not a project that Canadian Pacific
3 has in hand. There are other interests who, I think,
4 are looking at it but so far as I know it has not
5 been very actively progressed because most people now
6 recognize the serious disabilities and problems which
7 are associated with it.

8 Q. It is not a development within the realm
9 of possibility for the foreseeable future, then?

10 A. I think that is a very good way of expres-
11 sing it.

12 Q. Now, pages 7 and 8 of your submission,
13 Mr. Emerson, deal with freight equipment. I want to
14 relate what you say there to what you also say on page
15 33. On page 33 you state:

16 "With research techniques now available
17 and use of a high speed computer, it will
18 be possible to make studies which will
19 serve as a basis for planning a better
20 distribution of freight car equipment.
21 This should improve the utilization of
22 freight equipment, thus reducing the
23 number of units required in the inventory
24 to move a given volume of traffic."

25 In the next paragraph you refer to the fact that:

26 "This requires analysis of the relationships
27 between ownership costs, maintenance costs,
28 and utilization. The establishment of
29 this relationship is now the subject of an
30 extensive study ---"



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2 You point out the results which are expected to come
3 as a result of the study. I should like you, for the
4 benefit of the Commission, to explain if you will on
5 those two paragraphs, to indicate the development that
6 you expect in this field as a result of studies which,
7 I understand, are now under way.

8 A. Yes. The possibilities of the use
9 of a machine such as the 705, as it is commonly
10 referred to in this field, are quite intriguing. I
11 must say I find it a little difficult personally
12 with a background of past practices to perhaps fully
13 appreciate what may be in store for the future. What
14 is envisaged here is, for instance, the use of a machine
15 which would, on the basis of certain factors fed
16 into it, and the movement of equipment, predict that
17 the day after tomorrow or next week or next month
18 you will need so many cars at this point for loading.
19 You can readily appreciate all of the considerations
20 that might have to be taken into account to make that
21 realizable and practical, and I would certainly not
22 minimize those possibilities or rule them out. How-
23 ever, as I say, for a layman it is a little difficult
24 to understand how a machine -- you can measure and feed
25 into it the necessary information to bring out that
26 kind of result. We have that very much in mind.
27 It is not in the immediate future, but it is something
28 that is perhaps over the horizon and we have not
29 lost sight of it but have it very much in mind but
30 first things come first and we are pursuing other



activities at the present time.

Now, in regard to the second paragraph on page 33 dealing with ownership of cars, we have arranged for the 705 machine to have fed into it certain data not only in respect of movement of cars but in respect of their repair experience, when they go to rip tracks, as they are called, for repairs, how long they take, the money spent on them and so on and so forth. This may be a valuable thing in the future to pinpoint more precisely the point at which a car should be retired from service and a new one purchased, from the standpoint of economics. Again, that is a little distance removed in the future and we will have to develop the techniques and test them before we can apply them.

THE CHAIRMAN: Would that be the ultimate in the electronic brain?

THE WITNESS: Well, I hate to predict what the ultimate in the electronic brain might be. As it appears at the moment this might be the ultimate in its field but the ultimate, I think, is not capable of definition.

COMMISSIONER BALCH: It occurs to me that the cost of repairs to freight cars, that would be major repairs, would it not, not the running repairs? You would still have to look after the running repairs?

THE WITNESS: Oh, yes, this is not written in the sense that the 705 machine would eliminate either the overhaul or the running repairs. However, having



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2 consideration of these factors you might, for instance,
3 schedule major overhauls at different intervals to
4 minimize running repairs and to minimize total repair
5 costs as a whole and also as a measure of, as I say,
6 the time when a car should be taken out of service
7 and a new one put in to replace it.

8 COMMISSIONER BALCH: Almost like the aero-
9 planes at the present time where they have a certain
10 length of time that they are in the air and then go
11 in for repairs at that time?

12 THE WITNESS: That is true, that type of
13 thing.

14 MR. COOPER: Q. Mr. Emerson, on page 10 you
15 deal with signals and you mention in that paragraph
16 centralized traffic control and I want to relate that
17 to pages 34 and 35 where you deal also with centralized
18 traffic control. As I understand it, the installation
19 of centralized traffic control will produce savings
20 and would it be possible for you to indicate to the
21 Commission the extent of the savings you anticipate in
22 this area, let us say, within the next five years?

23 A. In dollar amount?

24 Q. I realize it will be difficult to put it
25 in dollar amount but any indication you could give to
26 the Commission as to the improvement in the position of
27 Canadian Pacific that would result from the institution
28 of centralized traffic control I am sure will be of
29 interest and benefit to them.

30 A. The period you mentioned?



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2 Q. I took a period of five years but
3 possibly you would wish to take some other period and
4 that is all right so far as I am concerned.

5 A. Well, we presently envisage under cur-
6 rent conditions that perhaps 1200 miles of Canadian
7 Pacific road, I say that in the sense of road miles,
8 is susceptible to desirable applications of centralized
9 traffic control. Now, this is a very preliminary
10 glance at the matter, each one would depend on a
11 particular study. To equip that mileage for central-
12 ized traffic control today would cost approximately
13 \$20 million. That might be reasonably attractive,
14 depending on the circumstances, over the next ten years.
15 As a guide, and I only mention it as a guide, an
16 approximation, we might expect that investment to
17 effect net savings on the order of, say, 15 per cent
18 or \$3 million. Offset against that, of course, would
19 be the cost of money for the installation. Now, these
20 are very rough figures because we have not made that
21 kind of calculation. I am trying to answer your
22 question to assist the Commission as best I can.
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2 Q. I realize it is difficult to put
3 dollar amounts positively on these things. I am really
4 not asking for that, but rather for an indication of
5 what the dollar amounts might be, and you have given me
6 that, and thank you for it.

7 On page 16 and in the first complete paragraph
8 on that page you refer to a special study made in 1959
9 of station expenses on the Prairie and Pacific regions
10 of Canadian Pacific showing the distribution of station
11 employees' time as set out in that paragraph. Was
12 that a separate study, or was it part of a study made
13 into the cost of moving grain at statutory and related
14 rates?

15 A. This, Mr. Cooper, as I understand it,
16 was a separate study from the cost of moving grain but
17 conducted for the purpose of testing the results of the
18 figures used in that study.

19 Q. Also on page 16 you refer in the second
20 last paragraph -- and perhaps I had better read the
21 words to which I wish particularly to draw your atten-
22 tion, and they are these:

23 "If it is decided that continuation of the
24 station with an agent is not warranted
25 or where the agent could be replaced by a
26 caretaker, the facts are assembled and
27 an application made to the Board of
28 Transport Commissioners, whose approval
29 for the closing of a station or the re-
30 placing of an agent by a caretaker is



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2 required."

3 My question is simply this: are the present statutory
4 provisions and regulations relating to the closing of
5 a station or the replacing of an agent by a caretaker
6 satisfactory so far as Canadian Pacific is concerned?

7 A. I think, Mr. Cooper, the question of the
8 necessity for obtaining Board approval for the closing
9 of a station or the replacing of an agent by a care-
10 taker might be open to considerable differences of
11 opinion in the light of present competitive circum-
12 stances, but as to that I would say that based on our
13 experience, up to the present at least, while we have
14 had some difficulties and while the Board has not
15 always agreed with us, this is not a serious problem.

16 Q. You are not suggesting, then, any change
17 in the statutory provision relating to this subject or
18 in any rules of procedure of the Board?

19 A. No, not in respect of this matter.

20 Q. I move along to page 19. You have
21 already touched on this subject to some extent, namely,
22 mechanization of data processing. I want to relate
23 what you say on page 19 with what is contained in the
24 submission on page 39 where you deal with the future
25 uses of integrated data processing, and also, and
26 perhaps particularly, to page 40 where you state in
27 the first full paragraph of that page, at the end
28 of the paragraph, "As an example, Canadian Pacific is
29 in the process of developing techniques of market
30 research through use of the computer equipment.



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2 Market research in railway transport depends in large
3 measure upon mass processing of traffic data."

4 Would you indicate to the Commission, Mr.
5 Emerson, what work is being done or is involved in this
6 process you have mentioned of developing techniques
7 of market research?

8 A. I don't know that I can be too helpful
9 in this field because this is a highly technical busi-
10 ness, this question of integrated data processing.
11 The mass of information available with respect to
12 traffic movements and the possibility of correlating
13 it, analysing it mechanically, and determining the
14 result may be helpful in the market research field in
15 regard to the impact of rates or the flexibility of
16 rates -- I have missed the word for a moment: the
17 relationship between rate changes and traffic volume.
18 This, of course, is a technique that has to be developed
19 and tested before it can be adopted or used extensively.
20 But, you have basically in this machine the potential
21 of collecting at one point traffic data from a
22 number of sources and, as I say, analysing them in
23 this way.

24 Q. What type of information, and perhaps
25 the answer to this may be obvious -- what type of
26 information are you seeking to develop in the field,
27 for example, of market research?

28 A. Well, I hesitate to be too precise in
29 this field because here is a matter which Mr. Edsforth
30 might be better able to speak to than I, to explain



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2 what would be most helpful to him. He is closer to
3 this particular problem than I am.

4 COMMISSIONER BALCH: I visited my old
5 terminal the other day, at the C.N.R., and they have
6 the IBM machines in the yard office there. Do the
7 C.P.R. have the same?

8 THE WITNESS: Yes -- not necessarily the
9 same machines, and our central computer, of course, is
10 quite different. This is a field we got into
11 considerably earlier than the Canadian National and
12 are probably somewhat further advanced.

13 MR. COOPER: Q. On the other question you
14 have already stated that Mr. Edsforth could perhaps
15 answer that?

16 A. Yes, if that is agreeable to you, Mr.
17 Cooper.

18 MR. SINCLAIR: I will bring it to his
19 attention, Mr. Cooper.

20 MR. COOPER: Thank you.

21 Q. Pages 21 to 27 deal with less than
22 carload freight traffic and merchandise services. I
23 believe that Vancouver has been selected as the scene
24 of pilot operations, if they may be so termed, in this
25 field?

26 A. Yes.

27 Q. Is it too early yet for any assessment
28 to be made of the effectiveness of the steps you have
29 taken in this field?

30 A. We have had certain problems that make



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2 it impossible to assess with any precision the results
3 of the pilot operation to date. First, of course,
4 I should say that the pilot operation only became
5 extensive on May 1st of this year when merchandise
6 services were extended as far east as Cranbrook, British
7 Columbia. So, at that time it comprised, and since
8 then has comprised, what you might say was a reasonable
9 unit. Prior to that it primarily consisted only of
10 the terminal operation at Vancouver and the service on
11 Vancouver Island which was relatively small and not a
12 true measure of what this type of development might
13 bring.

14 Now, of course, as with any new service, any
15 new operation, you have your teething troubles, and we
16 have had them. There are problems of accounting,
17 of bills of lading, the familiarizing of people who
18 are trained from all different branches of the service
19 into one organization and training them in the same
20 procedures, which are inevitably different from what
21 they have been accustomed to, and to get them to work
22 together as a team. There have also been problems
23 in respect of labour relations, which brought about an
24 unorganized work stoppage for a considerable period of
25 time in August, and of course that has distorted the
26 results.

27 Making allowances for those factors which
28 I have just mentioned, I can only say that looking at
29 it overall I think the field is promising. I believe
30 with reasonable expectation of avoidance or non-



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2 repetition of such circumstances in the future that we
3 can look forward to the results with some confidence.

4 Q. You do anticipate extension of these
5 merchandising services to other parts of the country?

6 A. Yes, Mr. Cooper.

7 Q. Do you anticipate such an extension will
8 be made general throughout the system?

9 A. I expect it will be made progressively;
10 and commencing probably in the year 1961 into Alberta;
11 and from then on I would hesitate to predict just what
12 period it would take to complete it. We believe this
13 is a field, in the light of the problems associated with
14 it, in which we should make haste cautiously, if I may
15 say so.

16 COMMISSIONER BALCH: You used the word
17 "integration" of services?

18 THE WITNESS: Yes.

19 COMMISSIONER BALCH: Would you say that is --
20 and I ask this question for a reason -- would you say
21 that is a new service entirely, or a new department of
22 the Canadian Pacific, entirely?

23 THE WITNESS: Yes, I would say it is a new
24 department, Mr. Commissioner Balch.

25 COMMISSIONER BALCH: You would say that?

26 THE WITNESS: Yes, sir, with the employees
27 drawn, of course, from the other departments.

28 MR. COOPER: Q. Mr. Emerson, on page 27,
29 the last paragraph and continuing over on page 28 you
30 deal with piggyback services, and you state that you



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2 expect an extension of these services. Do you expect
3 such an extension to be made to envisage all plans of
4 piggyback service presently in use in the United States
5 being available in Canada through Canadian Pacific?

6 A. I would not envisage that at the present
7 time, no. I would not envisage Plan 4, I think it is,
8 which entails the use of shipper-owned rolling stock as
9 well as trailers.

10 Q. Plan 4 I believe is railroads carry
11 trailers owned or leased by shippers on flatcars also
12 owned or leased by shippers at a flat charge per car?

13 A. Yes.

14 Q. That you would not expect to be put into
15 effect in Canada through Canadian Pacific -- that plan?

16 A. So far as I can see at the moment it
17 would be uneconomic, unsound in Canada, at least. It
18 seems to me it would be better to have railway-owned
19 flatcars which can be used by all shippers rather than
20 a number of flatcars which are used by individual
21 shippers, because one shipper's demands for transporta-
22 tion falls off and his flatcar would lie idle, whereas
23 another might be short of equipment, and when you have
24 railway-owned rolling stock it can be used inter-
25 changeably.

26 COMMISSIONER MANN: Does it matter to you
27 really, Mr. Emerson, if a flatcar is leased? You just
28 haul it. It is like a tank car?

29 THE WITNESS: No, I can't say that it matters
30 at all, basically, except there would be a question of



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2 charges which would be different in the two instances,
3 and the question, of course, of the storage of equipment
4 -- where you put it when it is not in use, and it would
5 entail additional switching, I believe.

6 COMMISSIONER MANN: I was comparing it to
7 a leased tank car -- the same thing?

8 THE WITNESS: That is a fair comparison.

9 MR. COOPER: Q. Except for Plan 4 you do
10 envisage that all plans relating to piggyback will be
11 in operation in Canada through Canadian Pacific?

12 A. Yes. The question of Plan 5, of course,
13 which involves joint rail-truck rates is possibly -- it
14 is potential, depending on working out arrangements
15 between the truckers and the railway, and depending
16 of course upon the question of whether or not that is
17 permitted by regulatory authorities.

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19 ---Luncheon adjournment.
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2 --- On resuming at 2 p.m.

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4 THE CHAIRMAN: Order, please.

5 MR. COOPER: Q. Mr. Emerson, we were
6 discussing before the luncheon adjournment the question
7 of piggyback, and I call your attention to page 28
8 where this sentence appears at the top of the page:

9 "Undoubtedly, some railroads in the United
10 States will grow more rapidly in this field
11 than Canadian Pacific, but there is still
12 room for a tremendous expansion of this type
13 of traffic on Canadian Pacific, provided
14 artificial restrictions to hamper the growth
15 are not imposed."

16 I should like you to enlarge on that
17 expression "artificial restrictions", and indicate to
18 the Commission what restrictions you had in mind when
19 using that phrase?

20 A. I have been sorry to note in recent
21 months a tendency on the part of some of the
22 provincial highway regulatory boards to impose
23 restrictions on piggyback service, and one board
24 requiring the motor carriers to take out a licence
25 for each carrier, for each route operated over each
26 railway, and attached to taking out that licence was
27 a fee of \$200 for the year 1960, and it is indicated
28 that the annual renewal will be \$100.

29 Those things, of course, are subject to
30 change, and pressures brought on a board might



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2 conceivably raise the fee to a point where it would
3 be prohibitive for a motor carrier to take them out.

4 In another case, there was a tendency to
5 attach to the licence -- the common carrier licence --
6 for the motor carrier, a condition that this licence
7 authorizing them to handle certain traffic was
8 applicable to movements by highway only. And, in a
9 third case, there was a case before the board
10 involving the question of handling certain traffic
11 and the board ruled that the licence which this
12 carrier held was to operate via a certain highway, and
13 he did not have the licence and was therefore not
14 authorized to handle this traffic by piggyback.

15 Q. What board are you referring to in this
16 connection? The Provincial Regulatory Board?

17 A. Yes, these are provincial regulatory
18 boards, in each case.

19 THE CHAIRMAN: These are all separate
20 provinces?

21 THE WITNESS: In the sequence I have given
22 them to you, Mr. Chairman, they are Quebec, Ontario
23 and Manitoba.

24 Now, naturally, we view this situation with
25 some concern, and not only from the standpoint of the
26 impositions that have already been made effective,
27 but from the standpoint of possible extensions. We
28 think it is an artificial restriction and one that
29 is not in the best interests of anyone except, perhaps,
30 certain interests associated with carriage by truck



1
2 alone.

3 Q. I will pass on from that subject, then,
4 Mr. Emerson, to page 31, the third complete paragraph
5 on that page:

6 "Canadian Pacific has a number of matters
7 in hand at all stages of development, some
8 of which after further study may be
9 abandoned. We have no doubt that our
10 efficiency will improve. Canadian Pacific
11 must and will improve the utilization of
12 its plant and adjust its labour intensity,
13 but this will not happen quickly."

14 Now, this paragraph appears under the heading
15 which is found on page 30, "Possibilities of achieving
16 further efficiencies and economies on Canadian Pacific".

17 I should like to ask you, Mr. Emerson, what
18 matters are in hand other than those to which you have
19 referred, and to indicate to the Commission what
20 progress is being made in such matters?

21 A. Well, this covers a whole gamit of
22 matters, Mr. Cooper, and I could not attempt to
23 delineate them all. Many of them, perhaps, I am not
24 even aware of myself, which are investigations in
25 different parts of the organization. I do not know
26 that there is any one which perhaps should be singled
27 out for special mention; none that occurs to me at
28 the moment, at any event. As I say, they are very
29 far reaching, some of them will come to fruition;
30 others will probably not meet the tests and will, after



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2 investigation, be abandoned.

3 MR. SINCLAIR: I would like to say, Mr.
4 Cooper and Mr. Chairman, that some of these areas
5 -- and I can well understand, and I am sure this Board
6 will understand that some of them are in what I would
7 call highly sensitive areas.

8 THE CHAIRMAN: We do not want trade secrets.

9 MR. SINCLAIR: Well, it is not trade secrets,
10 in that sense, sir, but we have to recognize that
11 timing sometimes is an element, and I do not know that
12 -- well, to be quite frank, in two instances in the
13 areas of competitive medias of transport; any
14 thoughts that the Company might have, until we are
15 ready to move them in, is one. There is another large
16 area, and that is what we might do to improve our
17 relationship of labour cost to output, which, of course,
18 is another part of it.

19 THE CHAIRMAN: Well, Mr. Emerson might cover
20 this in a confidential memo to the Commission.

21 MR. COOPER: Q. The only reason that I
22 asked that question, Mr. Emerson, is this, that I saw
23 the expression "a number of matters in hand". I
24 thought that there might be some matters which you
25 had in mind when writing that sentence and some matters
26 which you would, therefore, wish to bring to the
27 attention of the Commission, but, if there are no
28 specific matters in that category, why then, I am
29 satisfied to go on to the next point.

30 A. What I was attempting to convey in that
section, Mr. Cooper, was the fact that having looked



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2 and reviewed, as I did, what has happened in the past
3 and what is currently taking place; having reviewed,
4 also, as I think I did, those developments of which
5 we are on the threshold to indicate that this was not
6 the end. There are still others, some of them in the
7 near future, and others in the more distant future, which
8 I am sure, will come along.
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2 We have by no means exhausted the potentiali-
3 ties.

4 Q. Then, a general statement would indi-
5 cate that other than points which you have specifically
6 mentioned have been carefully investigated by
7 research department and other officials in the railway?

8 A. Precisely.

9 Q. On page 31 at the bottom of the page
10 appears this sentence:

11 "What I envisage is that in the next ten
12 years unit costs of transportation will
13 increase, but not at the rate of the last
14 ten years."

15 That is unit cost to the railway on prevailing
16 transportation?

17 A. Yes, I would put it that way.

18 Q. But you expect, nevertheless, that those
19 costs will not increase as they have done during the
20 last ten years?

21 A. For the reasons which I mentioned. I
22 hope I made clear this morning the elements which are
23 driving up the unit costs of transportation are prin-
24 cipally the cost of labour and the cost of material
25 to a lesser extent, plus the impact of income tax.
26 As I mentioned this morning, I hope the rate of
27 labour increase will not in the next ten years or the
28 next period of time be as rapid as it has been in
29 the past, particularly with reference to the fringe
30 benefits, and also that the rate of increase of income



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2 tax will not go up. In fact, I would hope that income
3 tax in an absolute sense would come down.

4 Q. Mr. Emerson, at page 42 you deal with
5 the Canadian National-Canadian Pacific Act of 1933.

6 On page 42 you state:

7 "Up to 1933 the cooperative measures between
8 the two companies consisted of:

9 (a) joint facility agreements.

10 (b) joint ownership of facilities."

11 And on page 43 you state:

12 "Since 1950 there have been no projects
13 completed under the terms of the Canadian
14 National-Canadian Pacific Act."

15 A. Yes.

16 Q. Do you consider that Act should be repealed?

17 A. I think that the Act has largely outlived
18 its usefulness and, while we have made no recommendations
19 calling for its repeal, I see no reason why that should
20 not be done in the sense to remove legislation from
21 the statute books which is no longer effective or
22 operative or required.

23 Q. And as I understand your submission, your
24 basis for putting the Act on the statute books in the
25 first place has disappeared?

26 A. Conditions have very materially altered.

27 Q. And I think you make no positive recom-
28 mendation for repeal but you see no reason why the
29 Act should not be repealed?

30 A. That is right.



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2 Q. I move on to branch lines and may I put
3 it briefly this way, that the stand of Canadian Pacific
4 on this question is that branch lines are not a problem
5 to Canadian Pacific in the sense of the problem being a
6 general problem and that the only recommendation that
7 Canadian Pacific has in this respect is the legislative
8 change which in effect shifts the burden of proof
9 in branch line abandonment cases?

10 A. Yes. I would say they are not a problem
11 in the sense that it is one that is open to action by
12 management, subject to the approval of the Board. Of
13 course, we have gone on to suggest certain changes in
14 legislation as you mentioned in regard to the onus.

15 Q. On page 49 at the bottom of the page you
16 say:

17 "Since 1949 Canadian Pacific has constructed
18 approximately 125 miles of trackage exten-
19 sions at a cost of almost \$10 million."

20 In the remainder of that paragraph you point out that
21 these extensions, for the most part, involve traffic
22 agreements which in some cases require the shipper to
23 pay an amount sufficient to amortize the loss. I
24 should like to know, Mr. Emerson, how many such
25 traffic agreements have been entered into with respect
26 to these traffic extensions?

27 MR. SINCLAIR: You just want the number?

28 MR. COOPER: Q. I have one or two other
29 questions as to what mileage is affected by this agree-
30 ment if that information is available. Perhaps I



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2 could get that figure later if you have not got it
3 there.

4 A. I think I have it here now. There are
5 a total of nine that I have.

6 Q. Nine traffic agreements?

7 A. Such agreements, yes.

8 Q. What mileage would they cover? You say
9 the total extensions are 125 miles of branch, would the
10 agreements cover the whole 125 miles or not? I would
11 also like to know how many of the traffic agreements
12 contain traffic guarantees and that information might
13 come at the same time.

14 COMMISSIONER BALCH: Do you mind if I ask
15 Mr. Emerson a question on that now?

16 MR. COOPER: Perhaps if we could get the
17 figure first.

18 COMMISSIONER BALCH: It was just what you
19 have mentioned here:

20 "The majority of these line extensions were
21 required for the movement of products of a
22 single shipper."

23 Would that include industrial sidings?

24 THE WITNESS: Oh, no, this is apart from
25 industrial sidings. We are not using this in the
26 context of industrial sidings. This was the branch
27 line construction to a mine or that type of thing.
28 About 76 miles, Mr. Cooper. Your second question was?

29 MR. COOPER: How many of the traffic agreements
30 contained traffic guarantees given by the shipper?



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2 MR. SINCLAIR: How many of the total miles of
3 line are covered by traffic guarantees even though there
4 were not arrangements for amortization?

5 MR. COOPER: Q. Yes, is the traffic guaran-
6 teed. What I want to get at, there are 125 miles of
7 new line; Now, how many of those miles are covered
8 by guarantees?

9 A. I think in the undertaking, in the first
10 class relating to the 76 miles would be a traffic
11 guarantee of some sort and in respect of the balance,
12 most of them would be a traffic guarantee although it
13 might not be in terms of specific volume of shipments
14 year by year.

15 Q. It would be a traffic guarantee of some
16 sort then with respect to 76 miles of the 125 miles of
17 new construction?

18 A. Seventy-six miles, plus.

19 Q. Seventy-six miles what?

20 A. Seventy-six miles, I say that implicitly
21 carries a guarantee of one form or another. In addition
22 to that, some of the other lines would involve a guaran-
23 tee, although it might not be in terms of a specific
24 volume year by year.

25 Q. What I was interested in was a specific
26 provision in the traffic agreement in the nature of or
27 being a traffic guarantee. In other words, how many of
28 the traffic agreements have specific provisions in them
29 guaranteeing a certain volume of traffic?

30 A. A certain volume of traffic?



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2 Q. Yes.

3 A. I cannot recall that offhand. I think I
4 would have to check back through our records to get the
5 answer to that.

6 Q. Could we get that information subsequently?

7 A. Yes, I will see what I can do to supply
8 that.

9 Q. And I would like to know if the traffic
10 agreements that are in force provide that the shipper
11 must pay the full percentage increase that may be
12 allowed by the Board in any general revenue case
13 through the life of any agreement?

14 A. As to the question of rates?

15 Q. Yes.

16 A. I think the answer to that is in each
17 instance the rates will be those authorized by the Board
18 of Transport Commissioners from time to time.

19 Q. The answer to the question is yes?

20 A. Yes.

21 THE CHAIRMAN: Is the traffic guarantee a
22 standard clause in the ---

23 THE WITNESS: No, sir, it is not the standard
24 clause, it is one which is agreed upon in the light
25 of the circumstances pertaining to the particular
26 industry and the particular line and the building of
27 the line.

28 THE CHAIRMAN: But it is usual?

29 THE WITNESS: It has been usual, say, in
30 our postwar construction period -- that is in the



1
2 construction we have carried out in the postwar period,
3 perhaps that is a better way to put it.

4 MR. COOPER: Q. And when information is
5 being furnished on this subject possibly you could also
6 let the Commission know the life of these agreements.
7 I do not know whether they are standard with a life of
8 five years or ten years or what.

9 A. They are not standard.

10 Q. They are variable?

11 A. Yes.

12 Q. Could you give the upper and lower limits
13 of time?

14 A. I will endeavour to do so.

15 Q. Now, on page 53 you mention a detailed
16 density analysis by line segment is being prepared
17 periodically and you state that the most recent such
18 analysis was done in 1954?

19 A. Yes, sir.

20 Q. I am quoting from the top paragraph of
21 page 53. Do you consider that analysis is valid
22 today?

23 A. Oh, it is indicative today. It would
24 certainly have to be used with discretion, you could
25 not follow it blindly by any manner of means but to
26 those who are familiar with the situation and the
27 railway characteristics pertaining to it, operation
28 of the system, it is informative.

29 Q. I have already mentioned that this
30 paragraph contains the words "a detailed density



1
2 analysis by line segment is prepared periodically".

3 How then is that done in fact?

4 A. There is no fixed rule on that, Mr.
5 Cooper, it depends on the circumstances.

6 Q. You have not considered the circumstances
7 justified another such analysis today in view of the
8 fact you now have one that was done in 1954, is that
9 correct?

10 A. I would rather put it this way, that
11 here we are in a field which is closely related to
12 the operation of the integrated data processing system
13 and our computer and there have been a number of problems
14 associated with the development and the use of the
15 computer itself that we felt, for one thing, it would
16 be better to get some of this work out of the system
17 and attack other problems rather than turning our
18 attention to this one.

19 On page 55 you refer in the first full para-
20 graph on that page to parallel lines and say:

21 "Where parallel lines do exist, whether
22 owned by one company or different companies,
23 and each line is uneconomic but withdrawal
24 of one of the two lines would make the
25 remaining line economic, then it is the
26 view of Canadian Pacific that this policy
27 should be pursued."

28 Have there been instances of applications for
29 abandonment having been made on this basis?

30 A. Well, there are applications currently



1
2 before the Board of Transport Commissioners which might
3 be said to follow this principle.

4 Q. What mileage would you have to point up
5 the expression "parallel lines" in this paragraph?
6 How close together must they be before they would be
7 considered to be parallel lines within the meaning of
8 that paragraph?

9 A. I do not think you can apply a definitive
10 precise figure in that context. For instance, you may
11 have the two lines, one on either side of a river which
12 are only a mile apart but that do not parallel one
13 another in the sense of serving a local territory
14 unless the rivers are very small with numerous bridges.
15 On the other hand, if there are no such intervening
16 obstacles and the terrain is rather an easy one served
17 with good roads, it may well be eight to ten or more
18 miles.

19 Q. It may be as high as 20 miles? I know
20 a lot depends on the terrain of the area served and so
21 on but I just wanted to get your general thoughts on
22 this.

23 A. I should think 20 miles would be an
24 upper limit.

25 Q. You would think more likely eight to ten
26 miles or something short of twenty miles?

27 A. Yes, because if it is twenty miles apart
28 and, let us say, three of them roughly parallel to one
29 another and you withdraw one of them then your remainder
30 would be forty miles apart which seems quite a distance



1
2 even under today's conditions.

3 Q. On page 57 you have a paragraph there
4 which is the third full paragraph on the page where
5 you say:

6 "This determination should not be postponed
7 merely because some people think their interest
8 should have a priority over other interests."

9 And then occurs this sentence:

10 "There is no contractual relationship between
11 the railway and the people using a branch line
12 that it should be continued."

13 I would take it, Mr. Emerson, that you would not want to
14 put this matter of branch lines and the question of
15 abandonment of the branch lines solely on a matter of
16 contract or judged in that light?

17 A. Oh, not solely, no, I would not think
18 that was the sole test.

19 Q. Has that test, do you think, any validity
20 at all as to whether -- we all know there is a
21 specific contract between the people using a branch
22 line and the railway and I am just wondering if you think
23 such a circumstance has any validity at all as a test?

24 A. Well, I suppose to put it this way, that
25 if there was such a contractual relationship we would
26 be very hard put to it to discontinue the run.

27 Q. Oh, yes, but it may be said that although
28 there is no contract in writing, nevertheless, the
29 circumstances are such that people were led to go
30 to the area where the branch line was constructed and



1
2 in that sense, although not in a strict legal sense,
3 but in the sense of having been induced to go there,
4 they do have a right to have the branch line?

5 A. Well, if you want to take it on that basis
6 my observation would be this, that you will have the
7 circumstances when the line was constructed but in the
8 intervening period perhaps the people in the community
9 either through their local municipalities or through
10 their urgings of the provincial government have caused
11 a network of roads to be constructed to parallel the
12 line and support some of the traffic. If this is
13 the situation I hardly think it is incumbent upon the
14 railway, having gone in there in good faith and con-
15 structing the line, the people having obtained it and
16 then taken to another form of transportation which
17 caused it to be duplicated should be held in the
18 position that it must continue the line.

19 Q. Perhaps in the end we do get down to the
20 test which is set by the Board as to whether or not the
21 public interest and convenience, if it is not being
22 served is greater than the loss of revenue to the
23 railways considered in the light of general public
24 interest?

25 A. That is certainly the test that has been
26 applied in the past. One of the great difficulties
27 about that, of course, is the definition of public
28 interest which means many things to many people.

29 Q. I was just going to ask you, Mr. Emerson,
30 if you would give your definition of the term to this



1
2 Commission?

3 A. Public interest -- national interest?

4 Q. Public interest, we will say, and national
5 interest too, if you will go on with that.

6 A. Well, national interest I suppose is a
7 matter of interest to all the people of Canada in an
8 actual sense. That is as close as I can come to it.

9 Q. I take it from your submission that you
10 do not regard this branch line question in so far as
11 Canadian Pacific is concerned as being one of national
12 interest at all?

13 A. No, I think not, because its impact is
14 purely in a local sense surely.

15 Q. What about the other interest, public
16 interest?

17 A. Well, I am sure that there are many who
18 have given this subject more thought than I have and
19 expressed their ---

20 Q. Perhaps they are only lawyers and they
21 serve to confuse?

22 A. Well, I do not think I can clarify
23 at the moment, I do not think I can do it.

24 Q. It is a question then which you wish to
25 leave to such interpretations as those placed upon it
26 and may be placed on it by those who have to struggle
27 with the freight?

28 A. In view of the question being raised I
29 will give it some thought and if something definitive
30 occurs to me perhaps I can inform you.



1
2 Q. I turn to passenger train service and
3 that subject has already been discussed to some degree
4 today, and I believe as a result of that my questions
5 will certainly be fewer than they otherwise would have
6 been.

7 You may already have covered this point; I
8 cannot quite remember. However, I will put this
9 question to you in any event: would it be true to
10 say, in your opinion, passenger train service may soon
11 become a thing of the past except for some inter-city
12 services and commutation services?

13 A. You said "soon become a thing of the
14 past"?

15 Q. Yes. You mentioned a five year period
16 this morning and I cannot remember whether that five
17 year period would apply to this question or not.

18 A. Yes, that was the context I used it in,
19 and I may have been a little optimistic about it. But,
20 subject to that, I think that is correct.

21 Q. So this statement would be correct,
22 putting the five year period in the question?

23 A. So long as you do not hold me too
24 tightly to the five year period.

25 Q. Oh, no.

26 A. My crystal ball sometimes gets cloudy.

27 Q. If I understood you correctly this
28 morning these commuter services are no longer a
29 problem?

30 A. No, I think not. They are meeting their



1
2 costs and are not a burden on other services so far
3 as our figures indicate.

4 Q. On page 74 you have some figures there
5 showing the results of the passenger train cost study
6 for 1958. The first figure is one relating to revenue
7 including the value of free transportation. What is
8 the value of free transportation wrapped up in that
9 figure of \$70,454,260?

10 A. I thought that figure was in the text,
11 but I cannot put my finger on it.

12 Q. I am sorry, it may be in the text and
13 I may have missed it.

14 A. \$6,700,000 in round figures.

15 Q. Well, that 6.7 million appearing on
16 page 81 is the figure which was used in arriving at
17 the passenger train costs for 1958?

18 A. Yes, sir.

19 Q. Under "expenses" you have operating
20 expenses including full cost of solely related lines.
21 Now, those lines are 91.96 miles as shown later on
22 in the same page; is that right?

23 A. Yes, sir.

24 Q. The figure for cost of money on
25 investment to be perpetuated was 10.4%; I would like
26 to know how the \$8,401,805 was arrived at? That may
27 also be covered in the text at the bottom of page 74
28 and page 75, but I nevertheless would like you to view
29 the matter for the Commission and just tell us how
30 that figure is made up?



1
2 A. The cost of money used in this
3 computation consists of the cost of money on the
4 variable portion of road property investment, on the
5 net investment in passenger train equipment which is to
6 be perpetuated.

7 Q. How do you arrive at that figure "to
8 be perpetuated"? That involves an estimate, I take it?

9 A. Oh yes.

10 Q. Well, it is the estimate that I want
11 to get at and you may have covered it at the top of
12 page 75 there.

13 A. No, I do not think it is covered other
14 than the reference to it at the top of page 75.

15 Q. Yes?

16 A. It involves diesel locomotives which
17 are presently used in passenger train service. I
18 say "presently" in the sense of 1958 here; approximately
19 \$30 million. Rail diesel cars, approximately \$10
20 million; and suburban coaches -- coaches used in
21 commuter service -- approximately \$3 million. Those
22 are not the precise figures, but they rounded out to
23 \$40 million.

24 Q. \$40 million?

25 A. Yes, sir.

26 Q. And that will be the investment that
27 will continue in the passenger train service -- or
28 am I wrong?

29 A. That is the investment which we would
30 envisage at this time would be perpetuated; that is to



1
2 say, other passenger train equipment, when it is worn
3 out or has otherwise outlived its usefulness, will
4 probably not be replaced.

5 Q. I am relating this figure to that
6 five year period of which you were speaking. At the
7 end of five years you would be left with nothing but
8 inter-city runs and commuter services, and at the end
9 of that period you envisage having an investment of
10 \$40 million?

11 A. I do not think you can quite relate the
12 figures in that way because some of the inter-city
13 runs might conceivably involve other equipment which
14 might not in the long run be perpetuated as we
15 envisage it now, but to take an example -- and this is
16 only an example -- Toronto-Montreal overnight or
17 something like that, might be using existing equipment
18 which we can see clearly now will not in the long run
19 be perpetuated when it has outlived its usefulness --
20 that is to say, the passenger service in existence
21 at that time -- will, including that, no longer
22 constitute a burden.

23 THE CHAIRMAN: Does free transportation
24 include transportation for employees?

25 THE WITNESS: Yes, Mr. Chairman.

26 MR. COOPER: Q. At page 75, you have the
27 statement in the third full paragraph on the page
28 which reads:

29 "Further adjustments in passenger train
30 service will result in a further reduction



1
2 of over two million passenger train miles
3 for the year 1960."

4 What is included in the phrase "further
5 adjustments"? Is it a rescheduling or abandonment of
6 service, or what?

7 A. It would include cancellation of trains,
8 reductions in service; consolidations, basically --
9 consolidations of trains.

10 Q. In the suggested legislation appearing
11 at pages 77 and 78 and being proposed additions of
12 sections to the Railway Act to be numbered 315A and
13 315B, appears a contemplation of a guarantee of sources
14 of revenue for a reasonable period in the immediate
15 future sufficient to exceed cost. That expression
16 occurs in subsection 5(b) and I was wondering what
17 kind of guarantee you would expect to receive and
18 from whom, or would that be a matter for determination
19 by the Board of Transport Commissioners?

20 A. That was written in the context that it
21 might apply in commutation areas particularly where,
22 for the sake of illustration, a community or a series
23 of communities along the railway might very well reach
24 the conclusion that their traffic problems -- speaking
25 of road traffic problems -- would be materially eased
26 by the continuation or even the addition of commuter
27 service, and they would then, under some kind of
28 agreement with the railway, make a guarantee of
29 revenues sufficient to meet the cost of the operation.

30 Q. What was in contemplation, then, was a



1
2 guarantee by a city or town or municipality?

3 A. Or a metropolitan area.

4 MR. COOPER: Thank you very much, Mr.
5 Emerson; that is all I have.

6 MR. PLATT: Mr. Chairman, just before we
7 adjourn: Mr. Emerson, you were kind enough to offer
8 to give some thought to this question of public
9 interest. I think it would be of even more advantage
10 to the Commission if you related that to what specific
11 criteria the Board could use in determining a case.
12 Is there any more specific way in which it could be
13 done which is related to public interest?

14 THE WITNESS: You have reference to the
15 abandonment of branch lines?

16 COMMISSIONER PLATT: Or services.

17 THE WITNESS: Or services, too.

18 COMMISSIONER PLATT: Wherever this so-called
19 public interest is involved.

20 THE WITNESS: I will take that into account.

21 COMMISSIONER PLATT: Thank you very much.

22
23 --- A short recess ---
24
25
26
27
28
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30



1
2 THE CHAIRMAN: Order, please.

3 MR. COOPER: Mr. Chairman, there is one
4 question which I meant to put to Mr. Emerson and
5 overlooked.

6 Q. I wanted to refer to Mr. Crump's
7 evidence before the Royal Commission on Canada's
8 Economic Prospects; that is the Gordon Commission, and
9 Mr. Crump at page 3922 of the transcript, volume 20,
10 was referring to excessive regulation of the railways,
11 both on that page 3922 and preceding pages. He did
12 deal on page 3922 with section 315 of the Railway Act,
13 and I wanted to ask you whether you considered that
14 the provisions of section 315 are unduly severe in
15 their requirements insofar as the Canadian Pacific is
16 concerned, and whether you would recommend any amendment
17 of that section.

18 315 is the section which sets out a good
19 many matters. The general heading of the section of
20 the part of the Act of which section 315 is the first,
21 the heading is "Traffic tolls and traffic". The
22 sub-heading is "Accommodation for traffic". The
23 section deals with a variety of matters: accommodation,
24 carriage, delivery and no delay, other services, what
25 adequate and suitable accommodation shall include, and
26 so on. It contains eight sub-sections.

27 The specific point which Mr. Crump made was,
28 and I quote his words:

29 "There are also extensive obligations
30 relating to the supply of equipment and



1
2 facilities which only have relevance to a
3 monopoly era."

4 And he refers to section 315.

5 A. Yes, Mr. Cooper, I am quite in accord
6 with the views of Mr. Crump on this matter. Certainly
7 the legislation, in my opinion, is out-moded in respect
8 of present day circumstances. It is not perhaps a
9 matter of great moment at the present time, and we did
10 not make, I think, any specific recommendations to the
11 Commission for that reason, having regard to the fact
12 that there were other more pressing matters which we
13 thought might engage your attention.

14 Q. One particularly, Mr. Emerson?

15 A. One, amongst others, yes.

16 Q. Well, you have no specific recommendation
17 to make with respect to the amendment of section 315,
18 or in fact I may put the question even in wider terms:
19 other sections of the Railway Act, in addition to those
20 which were mentioned in your submission?

21 A. The only ones which we have had in mind
22 were those delineated in the submission. There are
23 others. There are certainly others which, as I say,
24 are out-moded and could be cleaned up.

25 THE CHAIRMAN: We shall probably hear from
26 Mr. Sinclair later.

27 MR. SINCLAIR: Yes, there is one in particular,
28 sir.

29 MR. COOPER: Q. In any event, perhaps if you
30 have no strong views on the amendment of section 315 or



1
2 other sections at the moment, other than those
3 mentioned in the submissions, the matter can be left
4 for the attention of Mr. Sinclair in summation and
5 argument. But I am sure the Commission would appreciate
6 specific suggestions for any amendments aimed at
7 cleaning up, if I may use that expression, sections
8 of the Railway Act considered to be out-moded.

9 A. We shall certainly bear that in mind.

10 MR. COOPER: Thank you very much.

11 CROSS-EXAMINATION BY MR. SMITH:

12
13 Q. I have just a few questions, Mr.
14 Chairman.

15 Mr. Emerson, on pages 24 and 25 of your
16 precis -- at the foot of page 24 and top of page 25 --
17 you discuss the merchandise service you have instituted,
18 or your company has instituted in British Columbia,
19 whereby less than carload shipments and express and
20 coastal water movements and truck shipments are handled
21 in an integrated movement?

22 A. Yes, sir.

23 Q. And I think somewhere in your precis
24 you have mentioned that plans are being considered
25 for a further extension of this merchandise service?

26 A. Yes, sir. I think I mentioned that
27 also this morning in response to a question by Mr.
28 Cooper.

29 Q. Well, coming down a little nearer home,
30 has your company given consideration to the extension



1
2 of a merchandise service of this nature to the Saint
3 John, New Brunswick area, where your company carries
4 L.C.L. freight express and water movement via the
5 S.S. Princess Helene, and of course truck shipments by
6 a company sometimes known as the Smith Transport?

7 A. Yes, Mr. Smith, we have certainly given
8 consideration to it.

9 Our view, of course, is that this is a matter
10 in which we have to make orderly progress, and I think
11 based on our experience to date it would be preferable
12 to have this proceed in a contiguous fashion rather
13 than growing up in separate and distinct and not inter-
14 connected areas. That was the reason why I mentioned
15 this morning that our thoughts for 1961 would include
16 extension to Alberta.

17 Q. Yes. Your company has in the past made
18 announcements or, at least, the press has carried
19 announcements concerning some changes in the present
20 Bay of Fundy service?

21 A. I am not aware of any announcements that
22 have been made. There certainly have been press
23 releases on, or press reports on it in response to
24 questions that have been addressed to us, yes.

25 Q. Have these plans, if there are any,
26 progressed as far as considering what you are going to
27 do with, say, the service that is now carried out by
28 the Princess Helene?

29 A. We have that very much in mind, taking
30 into account the fact that the Princess Helene was



1
2 built, I think, in 1930 and necessarily will not last
3 indefinitely.

4 It is a very complex problem, if I may say
5 so, brought about by the height of the tides in the
6 Bay of Fundy.

7 Q. Yes, I quite appreciate that.

8 A. I certainly would not envisage
9 replacement of the Princess Helene in a ship similar
10 to the one that exists at the present time. It would
11 be a more multi-purpose vessel, similar to others we
12 have in service in other parts of the country. It is
13 a matter which is being very actively progressed now
14 and I hope we can deal with it to the point of making
15 a decision, and proceeding with it, if that is the
16 decision, in the near future.

17 Q. Would I embarrass you if I asked you
18 if that would be rail car and ferry service?

19 A. We certainly have very much in mind
20 the possibility of making that a rail car ferry
21 similar to the Princess of Vancouver.

22 Q. Also capable of carrying highway vehicles?

23 A. Yes, that is what I meant by a multi-
24 purpose vessel.

25 Q. Thank you very much.

26 Now, I noticed also on page 27 you discuss
27 piggyback service. I was directing a question to you
28 as to whether or not in your consideration of piggyback
29 service you have considered the movement of trailers
30 without their wheels, or what sometimes is called



1
2 container service. Some of them use a word that is
3 rather a horrible word -- containerization.

4 A. Very much in mind, Mr. Smith. As a
5 matter of fact, I thought there had been some reference
6 to that a little later on in the submission. I cannot
7 put my finger on it at the moment, but certainly we
8 have it very much in mind, and we are doing a good
9 deal of work in that connection endeavouring to develop
10 the most practical and economical system for the
11 handling of trailers or containers without their wheels.

12 COMMISSIONER MANN: Page 41. I think you
13 mentioned something like that there.

14 THE WITNESS: Thank you, that is the reference.

15 COMMISSIONER MANN: The last paragraph.

16 THE WITNESS: Yes, sir. Thank you very
17 much, sir.

18 MR. SMITH: Q. I was wondering also, Mr.
19 Emerson, if that could be applied to not only highway
20 vehicles but also on ocean vessels such as your
21 Beaver ships?

22 A. A very distinct possibility. As a
23 matter of fact, just a couple of weeks ago an
24 experiment was conducted on one of our Beaver vessels
25 out of Montreal employing just this thing.

26 Q. I see. That is a matter you have
27 under advisement and are experimenting and developing,
28 if possible?

29 A. We have this very much in mind, yes,
30 sir.



1
2 Q. So it would apply both to the sea
3 leg and the inland leg of the movement?

4 A. Both to the ---

5 Q. Sea leg --- the ocean leg of the movement?

6 A. Yes. What has sometimes been called
7 fishyback, in comparison to piggyback.

8 Q. Now, I am coming to another matter,
9 and that is in relation to the Canadian National and
10 Canadian Pacific Act which you discussed on page 43.
11 And I am doing this for a purpose because of some
12 evidence that was adduced at the Maritime hearings.

13 As I understand it, you state that no
14 project have been completed under the Act since 1950?

15 A. Yes, sir.

16 Q. I am going to ask this question, Mr.
17 Emerson. Would it be right to say that certain
18 co-operative arrangements which previously existed
19 between the two companies have been eliminated in
20 addition?

21 Well, I will draw your attention to
22 one specific instance. A witness by the name of
23 Lommer gave evidence in Halifax. He has a nursery
24 business in Annapolis Valley, and he was complaining
25 of the withdrawals of your company from the joint
26 freight shed facilities at Truro and the building
27 of your own facilities some distance away, which he
28 said caused him additional expense.

29 Now, I wonder why it was necessary to have
30 these additional facilities and why there could not



1
2 have been joint facilities maintained.

3 A. I am sorry to hear that this man was
4 dis-comoded. The reason we built the separate
5 facilities was because we could effect a substantial
6 saving by so doing.

7 Q. I see. You do not know what effect it
8 had on adding to the cost of shipping from D.A.R. points?

9 A. I am rather surprised that it had any
10 effect.

11 Q. It was more, perhaps, a question of
12 service, probably, than expense. But, in any event,
13 you say that you did it because you required the
14 facilities?

15 A. Because we were able to effect a
16 substantial saving.

17 Q. A saving?

18 A. Yes.

19 Q. Just one more question.

20 On page 75 of your precis you are dealing
21 there with the question of passenger service on
22 inter-city movement in large centers?

23 A. Yes.

24 Q. And you state that the type of
25 service required would be predominantly a coach
26 operation provided in part by R.D.C's and overnight
27 service limited to the next few years.

28 I was just wondering by the phrase "next
29 few years" what you meant, and if you had in mind
30 something -- the term you mentioned in reply to Mr.



1
2 Cooper, a period of five to ten years?

3 A. Yes, yes, sir.

4 MR. SMITH: Thank you very much.

5
6 CROSS-EXAMINATION BY MR. CARTER:

7 Q. At page 22 of your precis, Mr. Emerson,
8 you speak of the inauguration of coordinated services
9 involving to some extent the operation of highway
10 routes. Do you see that reference in the first complete
11 paragraph on page 22?

12 A. Yes, yes, Mr. Carter.

13 Q. Now, that was a policy which, as I
14 understand your precis, was worked out, as you say,
15 during the war years and instituted at about that
16 time, I take it?

17 A. Yes, just after the close of the
18 war, as I recall it.

19 Q. As I read the precis, and you will
20 correct me if my understanding is wrong, the type
21 of service which was developed under that policy was
22 one by which the highway operations were basically
23 complementary to the rails? Am I correct?

24 A. No, co-ordinated service, or specifically
25 the carrying of more than one type of traffic in one
26 vehicle. That is, for example, express and truck
27 traffic.

28 Q. As I understand your precis, however,
29 this particular policy of coordinated services which
30 was developed during the war years is different from



1
2 this present policy of integrated merchandise
3 servicing; is it not?

4 A. Very different, Mr. Carter.

5 Q. Could you tell me in what way the two
6 systems or contracts differ?

7 A. Under coordinated services you have, for
8 example, express traffic and perhaps truck traffic
9 carried in the same vehicle, but moved under separate
10 tariffs, separate rates, separate bills of lading,
11 handled at the terminals by two separate, distinct
12 groups of personnel.

13 Now, under merchandise services, you integrate
14 the terminal operations as well, so that you get one
15 solicitation force, one terminal staff, one accounting
16 staff, one transportation service for shipments.

17 I do not want to leave the impression that
18 the shipments all move by trucks or by rails, or as the
19 case may be, by box car. They may move by truck in
20 some instances, or on some days; by box car the next
21 day, or by piggyback another day. It is a combination
22 of the three, depending on the circumstances.

23 Q. Yes?

24 A. And also coordinated services involve
25 the use of set-out cars at certain points which were
26 loaded up at terminals such as Regina, for example,
27 moved to outlying points, and then trucked to
28 destination which inherently involves the labour of
29 transfer from box car to the highway vehicles which,
30 of course, from the standpoint of the employment of



1
2 labour, is a wasteful or an expensive type of
3 operation.

4 Q. To the extent that under the
5 coordinated system set-out cars were used, that would
6 be an aspect of the system where the truck operation
7 was complementary, I take it, to the rails; would it?

8 A. Yes, I think that is a fair statement.

9 Q. And as I understand it, under this
10 integrated merchandise service policy set-out cars are
11 not used that way?

12 A. They are not contemplated in that
13 fashion generally, no, Mr. Carter.

14 Q. And this is no doubt a pretty elementary
15 question, but can you assist me here. I gather from
16 some evidence you gave earlier on today that between
17 Vancouver and Cranbrook -- or, put it this way, that
18 your policy of integrated merchandise services includes
19 the area, Vancouver to Cranbrook; is that correct?
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21
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1
2 A. Yes, it is fully operative in that
3 area now.

4 Q. And now, do you have a rail link, if
5 I may call it that, between Vancouver and Cranbrook?

6 A. Very much so.

7 Q. And through one or other of the trucking
8 subsidiaries which you mentioned in your precis do
9 you also have a highway link?

10 A. Yes, we do.

11 Q. Well, perhaps you could assist me here;
12 suppose I am a shipper in Vancouver interested in
13 moving some L.C.L. traffic from Vancouver to Cranbrook.
14 Do you understand?

15 A. I understand.

16 Q. As I understand it, I would be
17 approached, solicited if you like, by one common
18 staff from the merchandise services?

19 A. That is right.

20 Q. Now who, assuming that I as a shipper
21 did not direct my shipment should go by rail or
22 truck, who then in that class of situation would
23 make that determination under this scheme?

24 A. You are living in Vancouver?

25 Q. I am -- I wish I was.

26 A. In this illustration -- in that
27 situation the determination would be made by the
28 merchandise service terminal staff.

29 Q. Having regard to.

30 A. Having regard to the most expeditious



1
2 way of handling the shipment.

3 Q. Now, if I might use that particular
4 movement, and again here I am thinking of an L.C.L.
5 shipment, would there be or could there be a
6 difference in the rate applicable to my movement
7 depending on whether it was moved on rail or truck
8 through the merchandise service?

9 A. Well, that is an area in which there
10 are certain problems. Our hope is certainly to bring
11 this about to carry one rate and move on one bill of
12 lading irrespective of how it actually moves.

13 Q. Just on that point, as I read your
14 precis, I gather as this system presently operates,
15 one bill of lading emerges from the services?

16 A. That is our plan.

17 Q. But as I understand you that aspect of
18 the plan has not as yet been moved out by which one
19 bill of lading in the end result comes through?

20 A. No, it is one bill of lading for one
21 shipment but perhaps I have not made that clear. Our
22 problem is that to have one form so it is the same
23 form whether it is an express shipment or an L.C.L.
24 shipment or an L.T.L. truck shipment.

25 Q. And this portion of your precis having
26 to do with highway operations you mentioned, as I have
27 it, a total of six subsidiary companies at least owned
28 or controlled by the Canadian Pacific. They are, as
29 I have them, Dench of Canada Limited; Smith Transport
30 Limited; Canadian Pacific Express; Island Freight



1
2 Service Limited; O.K. Valley Freight Lines Limited
3 and Canadian Pacific Transport Limited. Is that an
4 exhaustive list of the trucking companies which are
5 owned or controlled by the Canadian Pacific Railway?

6 A. That is a complete list but some of
7 those have subsidiary operations.

8 Q. And, in turn, there are other
9 companies owned or controlled by one or more of the
10 list of companies that I have just given?

11 A. A few.

12 Q. And could you tell me the names of
13 those companies?

14 A. Yes, I think I can.

15 Q. Could you also tell me in each case
16 the name of the parent company or the subsidiary
17 that you are dealing with?

18 MR. SINCLAIR: There was a request for
19 particulars along this line from Mr. Fournier and
20 I have given him a letter setting this out and also
21 some information -- I have not got a copy here.

22 MR. CARTER: This could be supplied later
23 as far as I am concerned.

24 MR. SINCLAIR: Or Mr. Emerson could
25 summarize it.

26 MR. CARTER: Q.. If Mr. Emerson has the actual
27 information I should like that.

28 A. First there is the Canadian Pacific
29 Express Company which is a separate entity itself,
30 has no subsidiaries in the trucking field. Canadian



1
2 Pacific Transport Company subsidiaries of which in the
3 trucking field are Dench of Canada and does itself own
4 operations in Manitoba and Saskatchewan carried out
5 under the name of Canadian Pacific Transport.

6 Q. Yes.

7 A. Also there is O.K. Valley Freight Lines,
8 a subsidiary of Canadian Pacific Transport. Moving
9 next to Smith Transport there are a number of companies
10 and those in which you would be interested, I think,
11 are Allans Transport Limited, Deluxe Transportation
12 Limited and Normans Transfer and Associated Companies.

13 Q. Normans Transfer and Associated Companies?

14 A. Yes. Also Smith Transport Maritime.

15 Q. Is that an exhaustive list of the
16 subsidiaries from Smith Transport Limited which are
17 engaged in highway transport?

18 A. No, it is not an exhaustive list
19 because those I have not given you are in effect
20 inactive companies.

21 Q. This is an exhaustive list of the
22 subsidiary companies which are actually operating
23 over the road?

24 A. I believe it is complete. There is
25 one here which I think I did not give you, Leaseholds
26 Transfer Limited and I do not recall the present
27 status of that.

28 COMMISSIONER MANN: Highland?

29 THE WITNESS: No, that company has
30 disappeared. Also I should mention Island Freight



Services which is a subsidiary of Canadian Pacific.

MR. SINCLAIR: Island?

THE WITNESS: Yes, Island, not Highland.

MR. CARTER: Q. And that is it?

A. Yes, sir.

Q. Now, each of these companies, I take it, holds franchises or licenses permitting it to transport general merchandise, goods of every kind and description. That will be true, I take it of Smith Transport Limited?

A. Yes, it would be true of Smith Transport but it would not be true of Canadian Pacific Express Company.

Q. Well, that company holds certain rights in that class, does it not?

A. Yes, in certain areas.

Q. Yes, in Saskatchewan, for instance, it holds certain franchises permitting it to transport general merchandise, does it not?

A. I am not familiar with the licensing. It may be limited to general merchandise which is on a prior post-rail haul. I am not sure -- Mr. Sinclair tells me not.

Q. The answer then I take it is yes, that company does hold that class of right in Saskatchewan?

A. Yes, I was mistaken.

Q. As far as Smith Transport Limited is concerned you say in your precis that that company holds licence rights permitting it to operate from the Maritimes through to the province of Manitoba.



1
2 Again, there, I take it, the class of right held by
3 that company is general merchandise goods of any
4 description?

5 A. Yes, that is right.

6 Q. Now, that company I think at Winnipeg
7 would or perhaps does link up with Canadian Pacific
8 Express with its general merchandise license right
9 in the province of Manitoba and Saskatchewan, does
10 it not?

11 A. More particularly with Canadian
12 Pacific Transport.

13 Q. Canadian Pacific Transport, I think
14 runs through the southern part of Manitoba,
15 Saskatchewan, Alberta, does it not?

16 A. I think it also has a licence to carry
17 to Saskatoon, if I am not mistaken and Edmonton.

18 Q. Then, in Alberta, as I understand it,
19 you have operations of Dench of Canada Limited?

20 A. That is right.

21 Q. And those, again, or that company
22 again is licenced to carry general merchandise, is
23 it not?

24 MR. FRAWLEY: No, no licenses.

25 THE WITNESS: No licenses required in
26 Alberta as I understand it.

27 MR. CARTER: Q. All right, that company
28 can carry general merchandise in Alberta?

29 A. Yes.

30 Q. And that company is similarly licensed,



1
2 I think, in the province of British Columbia.

3 A. As I remember, in the very eastern
4 portion of the province.

5 Q. And in the eastern part?

6 A. Yes, I think their license exists from
7 Cranbrook to Crows Nest.

8 Q. From Cranbrook on west I take it one
9 or other of these companies such as O.K. Valley
10 Freight Lines Limited would hold general merchandise
11 rights through to the Pacific Coast?

12 A. That is right, O.K. Valley Freight
13 Lines through Cranbrook to the coast.

14 Q. Yes, as far as rights held then, in
15 any event, the rights held by these various companies
16 would permit traffic of any kind or description, subject
17 of course to the physical limitations on a truck, to
18 be moved from the Atlantic coast to the Pacific coast,
19 would they not?

20 A. I think that is correct.

21 Q. You are familiar, I think, with the
22 system of trailer interchange which is commonly
23 operated between trucking companies?

24 A. Yes.

25 Q. Is the system of trailer interchange
26 maintained between these various subsidiaries,
27 trucking subsidiaries of the Canadian Pacific?

28 A. Smith Transport and Canadian Pacific
29 Transport, for instance, interchange trailers, that
30 is, providing trailers are used by Canadian Pacific



1
2 Transport in western Canada.

3 Q. And Smith Transport, of course, covers
4 eastern Canada?

5 A. That is correct.

6 Q. At page 25 of your precis you mention
7 the Vancouver terminal which has been set up, as I
8 understand it, as part of this merchandise service
9 concept?

10 A. As the heart, perhaps of this pilot
11 plant operation.

12 Q. As the which?

13 A. Heart -- h e a r t.

14 Q. Yes. The cost I think you say on
15 that page is \$800,000. Would that, may I ask, be
16 charged against rail operation?

17 A. It was a capital investment made by
18 the railway company as part of its merchandise
19 services department.

20 Q. And it is used by the Canadian Pacific
21 Railway in its rail operation, as I understand your
22 evidence.

23 A. Yes, that is correct.

24 Q. It is also used by O.K. Valley Freight
25 Lines?

26 A. Yes, that is right.

27 Q. And also by Island ---

28 A. Island Freight Services, that is
29 correct.

30 Q. What about the cost of maintenance of



1
2 operation of that terminal, is that charged solely
3 to the rail operation or is it divided in some manner?

4 A. The expenses associated with maintenance
5 and operation are all in railway accounts.

6 MR. SINCLAIR: I think we might tell the
7 Commission that since this has been raised before and
8 that is, as the merchandise services integrated it
9 becomes a rail operation within the accounts.

10 THE WITNESS: I should point out, of course,
11 also that the revenue associated with this
12 transportation whether by truck or by rail are also
13 in railway accounts.

14 THE CHAIRMAN: Under that classification?

15 MR. SINCLAIR: Yes. The question or the
16 point was put to me by Commissioner Mann on the
17 western trip originally and others have put it to me
18 since. Mr. Emerson is here and this is the time if
19 somebody wants to test the answer I gave then this is
20 the time to test it. Merchandise service became
21 part of the rail account just as express operations
22 were part of the account.

23 THE CHAIRMAN: We will take it you are right.

24 MR. SINCLAIR: Well, he is the witness and
25 that is what he is here for.

26 MR. CARTER: Q. My learned friend has
27 anticipated the point I was going to make. I think
28 now it is clear. As I understand it under this
29 concept of integration of merchandise services, in
30 the end result the operations of these trucking



1
2 subsidiaries which are part of the integration process
3 will be classed as highway rail operations for the
4 purpose of the uniform classification of accounts?

5 A. I think that is correct, certainly in
6 the areas that are ---

7 THE CHAIRMAN: It was not the railway?

8 THE WITNESS: Yes, railway as distinct
9 from rail.

10 MR. CARTER: Q. I mentioned a moment ago
11 and I will touch briefly on this again, a hypothetical
12 situation where we have a shipper who does not specify
13 -- this is my Vancouver shipper -- who does not specify
14 the method or media by which his shipment is to go,
15 by rail or road. Is there any sort of arrangement
16 or agreement between the Canadian Pacific Railway
17 Company as such and one or other of the subsidiary
18 companies such as Island Freight Services or O.K.
19 Valley Freight Lines by which such freight is divided
20 between them?

21 A. I do not know that I quite follow you
22 because in effect, you see, the supervision of the
23 operations, the movement of the traffic are melded
24 together.
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2 Q. Perhaps I can assist you, and I do not
3 wish to attempt to draw you out into a discussion of
4 the law, but what I had in mind was Section 318 of the
5 Railway Act, which you are no doubt familiar with, and
6 which prohibits the pooling of freights or tolls of
7 any other railway company or common carrier. The
8 only question apropos of that which I wanted to put
9 to you was whether in working this concept out the
10 officials of your company felt that this section raised
11 any problems or whether it had been encountered in
12 working out the problem?

13 THE CHAIRMAN: I think probably that is a
14 question of law.

15 MR. CARTER: I think it is.

16 MR. SINCLAIR: We considered it, Mr. Chairman,
17 and it was our opinion the way we were operating
18 was not in contravention of the section.

19 MR. CARTER: Thank you.

20 Q. I gather from your precis that you look
21 forward to setting up terminals in the prairie provinces
22 similar to the one in Vancouver?

23 A. That is our hope, yes.

24 Q. And you look forward to the integrated
25 operation in a similar way of both your rail and truck
26 enterprises through these terminals?

27 A. That would be the purpose of setting
28 them up.

29 Q. From my learned friend Mr. Smith's ques-
30 tion which he put to you a moment ago, you have a



1
2 similar plan in mind for the maritimes?

3 A. That is a little more distant.

4 Q. Well, you are thinking about it?

5 A. As I say, we are progressing basically
6 eastward.

7 Q. Yes, and your company does propose, then,
8 or have in mind eventually setting up a similar system
9 in eastern Canada, does it?

10 A. On the premise that we are able to meet
11 the problems which may be involved, yes.

12 Q. Where its rail enterprise loses traffic
13 to truck competition, I take it the Canadian Pacific
14 Railway are able in some instances, at least, to re-
15 capture the traffic for the company as a whole through
16 one or other of your trucking subsidiaries?

17 A. Are you referring now to the integrated
18 area in which merchandise services operates, or outside
19 of that area?

20 Q. My thought is a general one, Mr. Emerson,
21 but if you wish, let us take the situation in Vancouver
22 where this concept is being worked out?

23 A. Yes, the basic principle behind the
24 establishment of merchandise services is that we hoped
25 by utilizing the various tools of transportation to be
26 able to provide shippers with the best possible
27 service at the lowest economical cost.

28 Q. Quite, and in the process I take it your
29 company's hope would be to regain some of the traffic
30 which has been lost to the highway as far as the rail



1
2 side is concerned?

3 A. And perhaps to attract new traffic.

4 Q. Quite. That was with reference to your
5 Vancouver operation. I gathered from certain evidence
6 which Mr. Edsforth gave -- and I am just referring to my
7 note here -- that there is certain traffic moving by
8 truck from British Columbia into Alberta and into
9 Saskatchewan?

10 A. Undoubtedly, there is.

11 Q. You said, and as I understand your evidence
12 a moment ago this traffic which on the trucking side, so
13 to speak, Canadian Pacific Railway could carry, couldn't
14 it -- that is, initially on the western end of British
15 Columbia by Island Freight Services, or OK Valley
16 Freight Lines?

17 A. Assuming it originated at Vancouver and
18 it was routed via Canadian Pacific -- not by another
19 trucking line.

20 Q. Oh, quite.

21 A. It would be carried at the western end
22 on OK Valley.

23 Q. And it would then link up with Dench of
24 Canada as it moved east?

25 A. Yes.

26 Q. And as far as my province is concerned,
27 with Canadian Pacific Transport and/or Canadian Pacific
28 Express?

29 A. Well, probably Canadian Pacific Transport.

30 Q. Is your company at present, in fact,



1
2 participating in the movement of that traffic to the
3 extent it exists by truck or through its trucking
4 subsidiaries?

5 A. Do we have such traffic?

6 Q. Yes.

7 A. Oh, yes.

8 Q. And to some extent, at least, I suppose
9 this may have been or would have been traffic originally
10 carried by the rail side of the operation?

11 A. Well, it is very hard to determine that.
12 Basically, of course, what we have been trying to do is
13 compete with other trucking lines for what is or has
14 become truck traffic.

15 Q. Yes. Well, I would take it, Mr.
16 Emerson, that one of the full benefits, as I think you
17 termed it in your brief, I think at page 26, one of
18 the full benefits which your company looks forward to
19 securing through this integrated process would be to
20 regain for the company as a whole some of the traffic
21 lost from the rail side to the trucking companies?

22 A. To the other trucking companies?

23 Q. Yes.

24 A. Yes, very much so.

25 Q. And I take it you do anticipate that with
26 the development of these integrated services the volume
27 of traffic carried by your company's trucking subsid-
28 iaries will significantly increase?

29 A. The volume of traffic handled by merchan-
30 dise services, I hope, will increase with the volume



1
2 that may be carried today by the different branches of
3 the services, which may be lcl or express or truck.

4 Q. And this would probably in turn result
5 in a pretty significant increase in the amount of
6 traffic carried over the road by the company's
7 trucking subsidiaries?

8 A. Over the highways?

9 Q. Yes.

10 A. In some instances it may and, of course,
11 on the other hand it may well result in a significant
12 increase in the volume of traffic handled by piggy-
13 back.

14 Q. It is only in my province, Saskatchewan,
15 that on the trucking side of your company's business
16 you encounter rate regulation, isn't it?

17 A. No, I think that is not the only province.

18 Q. Well, in some other provinces such as
19 British Columbia you have to file tariffs, do you not,
20 on the truck side?

21 A. Yes, I think that is correct.

22 THE CHAIRMAN: And Manitoba.

23 MR. CARTER: Q. Yes, Manitoba?

24 A. And Manitoba as well.

25 Q. But as far as actual determination of
26 rates -- and I am thinking only of intra-provincial --
27 as far as the actual determination of rates goes, isn't
28 it correct that my province occupies the position of
29 being the only one, or am I wrong?

30 A. I am sorry, I missed that.



1
2 Q. I am directing myself to the movement of
3 intra-provincial traffic only in this question, if you
4 understand me, and my question is whether in your
5 company's trucking operations, generally, whether
6 Saskatchewan is not the only one where you encounter
7 rate regulation in the sense that rates are determined
8 by the licensing authority?

9 A. No, I think not. I think the situation
10 in Manitoba is parallel.

11 Q. Well, I don't wish to have you spend too
12 much time on this. However, this is correct, isn't
13 it: that as far as your company moves interprovincial
14 traffic by road that you do not encounter regulation
15 of rates?

16 A. Except with respect to Quebec.

17 Q. With that exception you don't encounter
18 such regulation?

19 A. I think that is correct.

20 Q. In working out your integrated services
21 does the fact that one side of it, rail, is regulated
22 ratewise and substantially otherwise and that the other
23 side, truck, is not regulated -- does this give rise
24 to any problems in working out the concept?

25 A. Well, it gives rise to certain problems
26 in regard to the jurisdiction of provincial bodies.
27 That has raised some problems in the past, yes.

28 Q. As you may be aware, the government of
29 Saskatchewan as part of its submission here suggested
30 to this Commission that it consider recommending



1
2 the setting up of an overall transportation authority
3 which would, amongst other things, deal with the
4 regulation of trucking rates in the interprovincial
5 area: do you understand that?

6 A. I understand, yes.

7 Q. Does your company, having in mind this
8 concept which you are in the process of working out,
9 feel such a suggestion, thinking of it in general,
10 might be useful perhaps in the working out of your
11 company's schemes?

12 A. Well, we have not advocated the establish-
13 ment of a rate structure on truck traffic. At the
14 moment I don't know that the creation of such a body
15 as you mention would particularly help or hinder us
16 except to the extent that such regulation of rates
17 ran counter to other regulations which are in effect
18 by the Board of Transport Commissioners for rail move-
19 ments.

20 Q. As far as the trucking side of your
21 operations are concerned, and thinking solely of inter-
22 provincial work, is your company opposed to rate
23 regulation?

24 A. Interprovincial?

25 Q. Interprovincial, yes.

26 A. No, I think we are not seriously opposed
27 to it -- proper regulation.

28 Q. At page 42 you deal with the Canadian
29 National-Canadian Pacific Act and you set out there, Mr.
30 Emerson, three reasons why the Duff Commission recommended



1
2 that the Act be passed: do you have that before you?

3 A. Page 42?

4 Q. Yes.

5 A. Yes.

6 Q. Those were three of a number of causes
7 which, in the opinion of that Commission, contributed to
8 the transportation problem, were they not?

9 A. Yes.

10 Q. You say at page 45 in the last paragraph
11 on that page that the situation which the Canadian National-
12 Canadian Pacific Act was passed to alleviate no longer
13 exists: do you see that?

14 A. Yes.

15 Q. As I read the Duff Report at page 53 of
16 that Commission's report, another one of the causes in
17 addition to the three set out in your precis which
18 that Commission found to be the principal contributory
19 causes to the transportation problem was -- and I am
20 reading from that report, "Competition from other forms
21 of transport, notably the road transport"?

22 A. Yes. That is item 4.

23 Q. That is right. Now, that situation of
24 course still exists, doesn't it?

25 A. Oh, very much so.

26 Q. Yes.

27 A. But I do not think the reference and the
28 recommendation and the subsequent action by Parliament
29 in passing the Canadian National-Canadian Pacific Act
30 was particularly related to competition from other forms



1
2 of transport.

3 Q. Yes?

4 A. As I understand it -- and I can only inter-
5 pret my own view of what was in the minds of those con-
6 cerned at the time -- the Canadian National-Canadian
7 Pacific Act was passed in reference to situations between
8 the two railways.

9 Q. You will recall, however, perhaps, Mr.
10 Emerson, that that statute in what is now Section 17(2)(d)
11 followed up the finding I have just referred you to by
12 specifically authorizing joint highway services or
13 highway and rail services in any form; that is, the Act
14 initially, you will recall, authorized general co-
15 operative agreements or arrangements. It went on in
16 the section I have just referred to to make specific
17 reference to that class of agreement.

18 A. Section 17(d)?

19 Q. Section 17(2)(d)?

20 A. Yes.

21 Q. Since that statute was passed was any-
22 thing done between the two railways under that particular
23 section -- any arrangement -- entered into relating to
24 joint highway services?

25 A. I at the moment do not recall any joint
26 highway services.

27 Q. Having in mind again your scheme of
28 integrated merchandise services, has your company given
29 any consideration to the possibility of a cooperative
30 arrangement under this statute and in particular under



1
2 the section I have just referred to with the Canadian
3 National which also, I believe, has certain truck
4 operations under its umbrella, if I may put it that way?

5 A. My view of that matter would be that
6 the problems in this field which are rather complex
7 and extensive and involved do not lend themselves to
8 solution between a large number of interests which may
9 not be entirely common. We have sometimes, and
10 frequently, differences of opinion within our own
11 organization on the trucking side and on the rail
12 side and any problems that come up have to be fully
13 explored and discussed and considered and eventually
14 hammered out and a decision reached, and having those
15 things in mind I am of the opinion that if you enlarge
16 the scope of that to cover a completely separate railway
17 company and its trucking operations, whatever they may
18 be, it would become almost insoluble.

19 Q. On page 37 -- may I take you briefly
20 there to road maintenance: you say in the first full
21 paragraph under that heading on that page that in 1959
22 it -- that is, road maintenance -- amounted to over
23 \$87 million?

24 A. Yes, sir.

25 Q. Could you get me now or later the
26 cost in that year of maintaining the main line?

27 A. No, sir, I am afraid neither now nor
28 later, because that is nowhere segregated in our
29 accounts.

30 Q. Very well. Now, this is a small point:



1
2 at page 49 in the second full paragraph you refer to a
3 statement made by the Premier of Saskatchewan in 1944
4 to the effect that he urged the construction of over
5 300 miles of branch line by your company in Saskatchewan;
6 do you see that?

7 A. Yes, sir.

8 Q. I believe that was not the present Premier
9 of the province of Saskatchewan?

10 A. No, I think not.

11 Q. It was Mr. Patterson who was then premier?

12 A. I think that is right.

13 Q. On page 56, if I may take you to that page,
14 you say in the first sentence in the first full paragraph,
15 "There seems to be general agreement in the evidence
16 that has been given to this Commission that the railways
17 should be free to abandon unprofitable branch lines."

18 A. Yes.

19 Q. Did you have in mind the Government of the
20 Province of Saskatchewan in making that statement when
21 you refer to "general agreement"?

22 A. I thought that reasonably covered the
23 position of Saskatchewan, but if I have been in error I
24 will be glad to reconsider it.

25 Q. My instructions are that my client is not
26 in general agreement with that statement as set out there,
27 that the railways should be free to abandon unprofitable
28 branch lines. I haven't been here too long myself,
29 but you may have some transcript reference you can
30 refer me to on the basis of which you suggest



1
2 Government of Saskatchewan ---

3 MR. SINCLAIR: We will check it, Mr. Carter,
4 and if we are relying on anything specific from the
5 Government of Saskatchewan we will draw it to your
6 attention.
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2 Q. Now, one or two questions, Mr. Emerson,
3 having to do with branch line abandonment and in
4 particular with your suggested Section 168 as it
5 appears on pages 59 and 60 of your precis. You have
6 that before you?

7 A. Yes, sir.

8 Q. To begin with, on page 60 you set out
9 a second suggested section. Is that not so? Section
10 168A?

11 MR. SINCLAIR: It is all part of the same.
12 They are integrated.

13 MR. CARTER: Q. Yes, all right. You
14 see the paragraph that I am referring to, which is
15 marked at the beginning , 168A?

16 A. Yes, I see the section.

17 Q. I am referring to the very last paragraph
18 on page 60.

19 Now, that section as I read it, Mr. Emerson,
20 163A, the words are identical to the present section 163,
21 except that you add a reference to section 168 itself.
22 That is, you start with the words "notwithstanding
23 section 168 . . . "?

24 A. Yes, sir.

25 Q. And, then, you later have the words
26 "except as provided by section 168".

27 Apart from that, the wording is identical
28 to the wording in the present section 168?

29 A. I think that is correct, without having
30 checked them.



1
2 Q. Now, it is under the present section 168
3 that the Board of Transport Commissioners has developed
4 the issue which presently has to be made in abandonment
5 cases; is it not?

6 A. The section which guides and governs the
7 Board, yes.

8 Q. And it is under that section that in
9 particular the Board, and you set it out on page 57,
10 has stated the issue to be whether the loss and incon-
11 venience to the public consequent upon the abandonment
12 outweighs the burden that the continued operation of
13 the branch line would impose on the railway company.
14 That is the issue, is it not?

15 A. That is the principle followed by the
16 Board.

17 Q. As things stand now, under the present
18 legislation?

19 A. Correct.

20 Q. Well, now, in preserving as you do in
21 your suggested amendment, the existing section which
22 as I read it you do in 168A, I wondered whether your
23 company contemplated that there would be two categories,
24 so to speak, of cases involving abandonment. One
25 would be the category or class of case which would
26 fall under your proposed Section 168 where the only
27 issue would be cost and the other category would be,
28 as set out in 168A, where presumably if the Board
29 followed its own jurisprudence the issue would still
30 be the one that it is today. Have I made that clear?



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2 Is this what your company had in mind?

3 A. Well, as I understand it, section 168
4 is the operative section.

5 Q. Perhaps I can assist you. What I have
6 in mind specifically is this. In 168A you repeat the
7 present statute in effect and say a railway company
8 may with the approval of the Board abandon the operation
9 of any lines and except as provided by section 168,
10 which I take it is a reference back to your earlier
11 amendment -- except as provided by that section no
12 company shall abandon the operation of any line without
13 such approval.

14 Again, that to me seems to indicate that
15 there would be the two categories of case; one where
16 the issue would be the new one with the burden on the
17 applicant for the stay, and the other one being a
18 category where the issue as now set by the Board under
19 its decision would apply?

20 A. I would have to consider that, I think,
21 at a little more length in view of the question you
22 have raised.

23 THE CHAIRMAN: I think that is a question of
24 law.

25 MR. SINCLAIR: The reason for it is that
26 this is drafted by a man who is not a legislative
27 draftsman and he is standing right here. And if I
28 haven't got it right, I will take responsibility for
29 it, but the idea was -- if Mr. Carter wants to know what
30 the idea was, it was that there are instances where line



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2 traffic has gone completely serving a single man, for
3 instance, and it was ruled that we do not want to get
4 involved in the situation that would arise under
5 168 where we could, merely by saying to the Board,
6 "There has been nothing moved on this line for four
7 or five months; can we take it up", and they saying,
8 "Certainly; take it up". And that is what we were
9 trying to preserve.

10 MR. FRAWLEY: Four or five months?

11 MR. SINCLAIR: Or for some reasonable period
12 in light of all the circumstances.

13 MR. FRAWLEY: A little more protection there.

14 MR. CARTER: Q. One further question, and
15 this is the last one on this point, Mr. Emerson, having
16 to do with your abandonment section, the new one.

17 One or other of the Commissioners, I think it
18 was Commissioner Platt, asked you a question having to
19 do with the criteria which would be used in determining
20 public interest as that interest might be involved in
21 abandonment cases?

22 A. Yes.

23 Q. As I read what you say in your precis
24 here the public interest would only be involved in a
25 very, very narrow way, would it not -- a very narrow
26 economic way?

27 A. That is, after all, I suggest, a very
28 fair measure of the public interest, surely.

29 Q. Oh, yes. I am not here to say whether
30 at the moment, at least, it is or is not, but as I see



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2 it that is the effect of this; is it not -- that the
3 only issue would be (a) the cost of operating the
4 line and (b) the question of whether there is potential
5 traffic to coordinate those costs?

6 A. In other words, put it to the acid
7 test.
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2 Q. Yes, and the sort of consideration which
3 my learned friend Mr. Cooper suggested to you in his
4 cross-examination, the question of communities having
5 been built up after the rail had been put through,
6 after the branch line went in, this would no longer
7 be a question properly to be considered in any way
8 under this proposed amendment, would it?

9 A. Well, I suggest that what happens --
10 I think you have to look at it in the context of what
11 takes place and what happens after the communities
12 have built up and the rail service has dwindled and
13 the rail revenues have dwindled. What has happened
14 is that the communities have turned to other forms
15 of transportation.

16 Q. The communities may feel otherwise in
17 any particular abandonment case and as I read your
18 proposed amendment they would not have the right to
19 be heard before the Board of Transport Commissioners
20 in the light of this narrow economic issue which would
21 be the only issue involved under the amendment. Is
22 that not so?

23 A. They would certainly have the right to
24 be heard.

25 Q. Well, heard only however on this issue
26 of cost of traffic. Any issue which they might think,
27 perhaps rightly or wrongly wider than that, would be
28 beside the point, would it not?

29 A. I cannot think of what other interests
30 would really be pertinent but, in any event, if they



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2 wanted to assure the company of sufficient revenues
3 to meet the costs of the line as provided for under
4 subsection 5, sub subsection (d) ---

5 Q. As I understand it you will give
6 consideration to the sort of guarantee which might be
7 required?

8 A. We are going to give consideration.

9 Q. Yes. I think Mr. Cooper asked you a
10 question apropos of the passenger discontinuance
11 section having to do with the guarantee which referred
12 to another section, subsection 5(b) of your proposed
13 amendment. I might be wrong here.

14 A. I think that was in quite a different
15 context, that was in connection with branch lines which
16 had been built to serve particular industries.

17 Q. Well then, just on that point may I ask
18 this: as you understand this proposed amendment, to
19 begin with, the applicant in order to be successful in
20 setting up the abandonment of the branch line would
21 have to satisfy the Board that sources of revenue for
22 a reasonable period of time in the immediate future
23 have been guaranteed?

24 A. Yes.

25 Q. What you have in mind there that that
26 applicant would have to enter into some form of
27 guarantee by bond or otherwise?

28 A. It would depend on the circumstances --
29 it might well be.

30 Q. Guaranteeing the traffic, so to speak,



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2 over a reasonable period in the immediate future?

3 A. Yes.

4 Q. So that he would be personally liable
5 in the event that their hopes for traffic were not
6 realized?

7 A. Personnally liable in the sense of
8 a municipal corporation or whatever it may be.

9 Q. They would have to pay up?

10 A. Yes, or use the service.

11 MR. FRAWLEY: Take or pay as they say in
12 Alberta.

13 MR. SINCLAIR: Fish or cut bait as they say
14 in Maritimes.

15 MR. MAURO: There is another expression in
16 Manitoba.

17 MR. CARTER: Q. I am afraid I have exhausted
18 my time but I am almost through. In connection with
19 free transportation I want to ask you a question or
20 two just so that I have this clear. As I understand
21 your figures on page 74 in showing your loss in 1958
22 as \$29,352,474, that includes, however -- it is the
23 loss figure after allowing for the income of the
24 value of free transportation on the revenue side?

25 A. Yes, the value of free transportation
26 included as revenues.

27 Q. And that value again is approximately
28 \$6,700,000?

29 A. Yes.

30 Q. So, dollar wise, and before looking



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2 at the income tax adjustment, the loss then on
3 passenger operation in 1958 would have been \$36,52,474?

4 A. If you ignore the value of the free
5 transportation.

6 Q. Yes. Could you now, or perhaps later,
7 give me a break down of your \$6,700,000 figure so as
8 to show the value of free transportation in that
9 figure to the required -- if I may term it that --
10 those you have to carry by law?

11 A. The mandatory group?

12 Q. And the permitted group.

13 A. No, I am sorry I cannot undertake to
14 do that. The reason is that the information is not
15 available, the basic data we work from is the number
16 of persons travelling on passes or certificates on
17 the train but we do not know which is which.

18 Q. Could you give a reasonably accurate
19 estimate now or later?

20 A. I know of no way, no basis to make
21 such an estimate, I am sorry to say.

22 MR. CARTER: That is all, thank you and your
23 colleagues for permitting me to finish.

24 THE CHAIRMAN: Mr. McDonald, you will be
25 ready at 10 o'clock Monday morning?

26 MR. McDONALD: Yes, Mr. Chairman.

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28 --- Adjournment ---
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